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# Checklists and illustrative financial statements for health and welfare benefit plans : a financial accounting and reporting Practice aid, August 1999 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

Linda Delahanty

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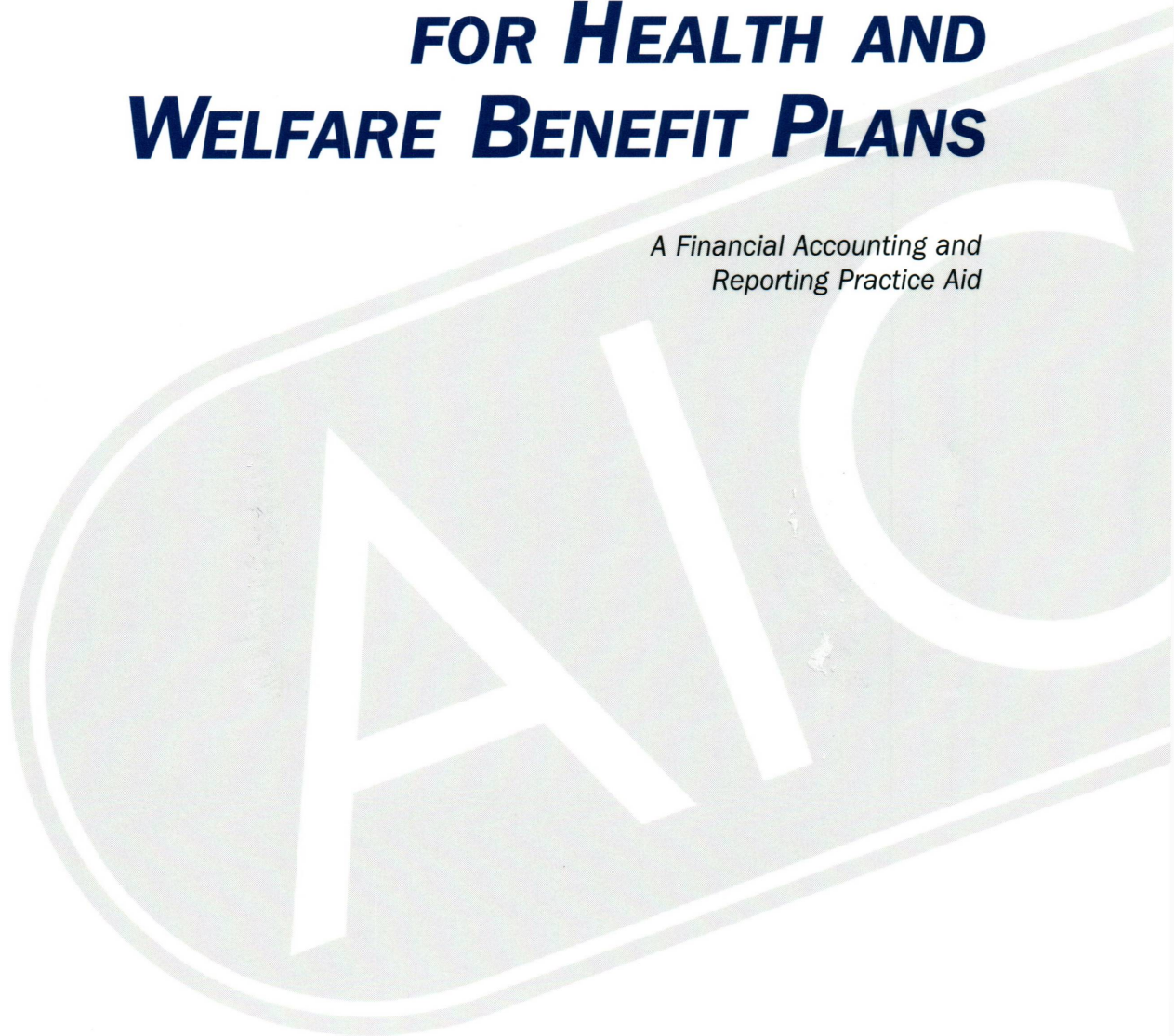
**AICPA**

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**AUGUST 1999 EDITION**

**CHECKLISTS  
AND ILLUSTRATIVE  
FINANCIAL STATEMENTS  
FOR HEALTH AND  
WELFARE BENEFIT PLANS**

*A Financial Accounting and  
Reporting Practice Aid*



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AUGUST 1999 EDITION

# **CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR HEALTH AND WELFARE BENEFIT PLANS**

*A Financial Accounting and  
Reporting Practice Aid*

*Edited by*

**Linda Delahanty, CPA**

*Technical Manager, Accounting and Auditing Publications*

*Checklists and Illustrative Financial Statements  
for Health and Welfare Benefit Plans* has not been  
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# FSP Section 10,000

## *Checklists and Illustrative Financial Statements for Health and Welfare Benefit Plans*

### Description

.01 Employee benefit plans include defined benefit pension plans, defined contribution pension plans, and health and welfare benefit plans. Health and welfare benefit plans include plans that provide:

- Medical, dental, visual, psychiatric, or long-term health care; life insurance (offered separately from a pension plan); certain severance benefits; or accidental death or dismemberment benefits.
- Benefits for unemployment, disability, vacations, or holidays.
- Other benefits such as apprenticeships, tuition assistance, day care, dependent care, housing subsidies, or legal services.

.02 Defined-benefit health and welfare plans specify a determinable benefit, which may be in the form of a reimbursement to the covered plan participant or a direct payment to providers or third-party insurers for the cost of specified services. Such plans may also include benefits that are payable in a lump sum, such as death benefits. The level of benefits may be defined or limited based on factors such as age, years of service, and salary. Contributions may be determined by the plan's actuary or be based on actual claims paid or other factors determined by the plan's sponsor. Even when a plan is funded pursuant to agreements that specify a fixed rate of employer contributions (e.g., a collectively bargained multiemployer plan), such a plan may nevertheless be a defined-benefit health and welfare plan if its substance is to provide a defined benefit.

.03 Defined-contribution health and welfare plans maintain an individual account for each plan participant. They have terms that specify the means of determining the contributions to participants' accounts, rather than the amount of benefits the participants are to receive. The benefits of a plan participant are limited to the amount contributed to the participant's account, investment experience, expenses, and any forfeitures allocated to the participant's account. These plans also include flexible spending arrangements.

.04 Plan participants may be active or terminated employees (including retirees), as well as covered dependents and beneficiaries, of a single employer or group of employers. Employer contributions may be voluntary or required under the terms of a collective bargaining agreement negotiated with one or more labor organizations. Plans may require contributions from employers and participants (contributory plans) or from employers only (noncontributory plans). During periods of unemployment, a noncontributory plan may require contributions by participants to maintain their eligibility for benefits. Benefits may be provided through insurance contracts paid for by the plan (an insured plan), from net assets accumulated in a trust established by the plan (a self-funded plan), or both.

.05 A health and welfare plan may process benefit payments directly or it may retain a third-party administrator. In either case, a plan that is fully or partially self-funded is obligated for the related benefits.

## Regulatory Requirements

.06 The Employee Retirement Income Security Act of 1974 (ERISA) provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans. Under ERISA, the Department of Labor (DOL) and the Internal Revenue Service (IRS) have the authority to issue regulations covering reporting and disclosure requirements.

.07 ERISA generally requires that the administrator of an employee benefit plan prepare and file various documents with the DOL, the IRS, and the PBGC. The annual report to be filed for employee benefit plans generally is the Form 5500 Series. The Form 5500, a joint-agency form developed by the IRS, the DOL, and the PBGC, may be used to satisfy the annual reporting requirements of the Internal Revenue Code (IRC) and Titles I and IV of ERISA.

## Financial Accounting and Reporting Standards

.08 The AICPA Statement of Position (SOP) 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans*, establishes generally accepted accounting principles (GAAP) for health and welfare benefit plans. The AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (the Guide) provides guidance on auditing and reporting on the financial statements of employee benefit plans. Plans that have adopted the provisions of SOP 92-6 (see the transition section below) should follow the accounting and disclosure requirements set forth in chapter 4A of the Guide. SOP 92-6 requires restatement of prior period financial statements to comply with the provisions of SOP 92-6 in the year of adoption. Plans that have not adopted the provisions of SOP 92-6 (see the transition section below) should follow the accounting and disclosure requirements set forth in chapter 4B of the Guide.

.09 SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, specifies the accounting and reporting for health and welfare plans for investment contracts.

.10 FASB Statement of Financial Accounting Standards (SFAS) No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, does not apply to health and welfare benefit plans. However, the methods of valuing plan investments and the requirements for financial statement disclosures are generally the same as those specified in SFAS No. 35.

.11 SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, establishes standards of financial accounting and reporting by employers for health and welfare benefits expected to be provided to a participant during retirement. While SFAS No. 106 does not apply to health and welfare benefit plans, the Guide adopted certain of its measurement concepts. Also, terminology used in discussing postretirement benefits in the Guide follows the usage and definitions provided in SFAS No. 106.

## Accounting and Reporting by Health and Welfare Benefit Plans

.12 The financial statements of a defined-benefit health and welfare plan prepared in accordance with GAAP should be prepared on the accrual basis and should include the following:

- A statement of net assets available for benefits as of the end of the plan year.
- A statement of changes in net assets available for benefits for the year then ended.
- Information regarding the plan's benefit obligations as of the end of the plan year.
- Information regarding the effects, if significant, of certain factors affecting the year-to-year change in the plan's benefit obligations.



.13 Information regarding the benefit obligations should be presented on the face of one or more financial statements. Note disclosure is not appropriate.

.14 The financial statements of a defined-contribution health and welfare plan prepared in accordance with GAAP should be prepared on the accrual basis and should include the following:

- A statement of net assets available for benefits of the plan as of the end of the plan year.
- A statement of changes in net assets available for benefits of the plan for the year then ended.

.15 Because a defined-contribution plan's obligation to provide benefits is limited to the amounts accumulated in an individual's account, information regarding benefit obligations is not applicable.

.16 Plan investments should be reported at their fair value except a defined-contribution health and welfare plan should report investment contracts with fully benefit-responsive features (as defined in SOP 94-4) at contract value. Assets used in the administration of the plan are stated at cost less accumulated depreciation and amortization.

.17 Whether or not a plan is subject to ERISA, insurance contracts, as defined by SFAS No. 60, *Accounting and Reporting by Insurance Enterprises*, are to be included in plan assets in the manner required by ERISA's annual reporting requirements and are to be reported in a manner consistent with the requirements of DOL Form 5500 or 5500-C.

.18 In addition to the reporting requirements of SOP 92-6 (and chapters 4A and 4B of the Guide, as appropriate) health and welfare benefit plans may have reporting requirements under ERISA. Schedules required by ERISA include the following:

- Line 27a—Schedule of Assets Held for Investment Purposes
- Line 27b—Schedule of Loans or Fixed Income Obligations
- Line 27c—Schedule of Leases in Default or Classified as Uncollectible
- Line 27d—Schedule of Reportable Transactions
- Line 27e—Schedule of Nonexempt Transactions
- Line 27f—Schedule of Nonexempt Transactions

Please refer to the Instructions to Form 5500 for schedule requirements.

## Transition

.19 SOP 92-6 is effective for audits of financial statements of single employer plans for plan years beginning after December 15, 1992, except that the application of SOP 92-6 to plans of single employers with no more than 500 participants in the aggregate is effective for plan years beginning after December 15, 1994. SOP 92-6 is effective for audits of financial statements of multiemployer plans for plan years beginning after December 15, 1995. Earlier application is encouraged.

.20 On November 25, 1998, the Pension and Welfare Benefits Administration (PWBA) announced that it will not adopt a proposed non-enforcement policy affecting Form 5500s filed by multiemployer welfare benefit plans. Accordingly, annual reports of multiemployer welfare benefit plans filed for plan years commencing on or after January 1, 2000, will be subject to rejection by the PWBA if there is any material qualification in the accountant's opinion accompanying the annual report due to a failure to comply with the requirements of SOP 92-6.

**Note:** This checklist is applicable to those plans that have adopted SOP 92-6.

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**Note:** This publication was extracted from sections 10,000 through 10,400 of the AICPA *Financial Statement Preparation Manual* (FSP).

# FSP Section 10,100

## *Instructions*

### General

.01 This publication includes:

- **Financial Statements and Notes Checklist**—For use by preparers of health and welfare benefit plan financial statements and by practitioners who audit them as they evaluate the adequacy of disclosures.
- **Auditors' Report Checklist**—For use by auditors in reporting on audited health and welfare benefit plan financial statements.
- **Illustrative Financial Statements and Auditor's Reports**—Illustrating full sets of health and welfare benefit plan financial statements.

.02 The checklists and illustrative financial statements included in this section have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative practice aids to be used as a memory jogger to aid in the audit of financial statements of health and welfare benefit plans.

The checklists have been updated to include guidance relevant to employee benefit plans contained in official pronouncements issued through:

- FASB Statement of Financial Accounting Standards No. 134, *Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise* (an amendment of FASB Statement No. 65)
- FASB Interpretation No. 42, *Accounting for Transfers of Assets in Which a Not-for-Profit Organization Is Granted Variance Power*
- FASB Technical Bulletin No. 97-1, *Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option*
- AICPA Statement on Auditing Standards No. 87, *Restricting the Use of an Auditor's Report*
- AICPA Statement of Position No. 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*
- AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (with conforming changes as of May 1, 1999)
- AICPA Practice Bulletin No. 15, *Accounting by the Issuer of Surplus Notes*
- FASB EITF consensuses adopted up to and including the February 1999 Emerging Issues Task Force meeting.

The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

### Instructions

.03 The checklists consist of a number of questions or statements that are accompanied by references to the applicable authoritative pronouncements. The checklists provide for checking off or initialing each ques-

tion or point to show that it has been considered. Users should check: “yes” if the disclosure has been appropriately made, “no” if the disclosure has not been made, or “n/a” if the disclosure is not applicable to the engagement. The auditor should consider the effect of a “no” answer on his/her report. A “no” answer that is material to the financial statements may warrant a departure from an unqualified opinion (see paragraphs 20–63 of SAS No. 58, *Reports on Audited Financial Statements*, as amended [AICPA, *Professional Standards*, vol. 1, AU sec. 508.20–.63]). If a “no” answer is checked, the authors recommend that a note be made in the right margin to explain why the disclosure was not made (for example, if the disclosure was not made because it was not material to the financial statements, write “not material” in the right margin). The right margin may be used for other remarks or comments as appropriate, including cross-referencing to applicable work papers where the support to a disclosure may be found. Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

**.04 The checklist is not a substitute for the authoritative pronouncements. Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated nor do they represent minimum requirements. Pronouncements deemed remote for health and welfare benefit plans are not included in this document. The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.**

**.05 If you have further questions, call the AICPA Technical Hotline 1-888-777-7077.**

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# FSP Section 10,200

## *Financial Statements and Notes Checklist*

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

AAG =	AICPA Audit and Accounting Guide <i>Audits of Employee Benefit Plans</i> (with conforming changes as of May 1, 1999)
SFAS =	FASB Statement of Financial Accounting Standards
FASBI =	FASB Interpretation
APB =	Accounting Principles Board Opinion
ARB =	Accounting Research Bulletin
SOP =	AICPA Statement of Position
AC =	Reference to section number in FASB <i>Accounting Standards—Current Text</i>
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
ERISA =	Employee Retirement Income Security Act of 1974
DOL =	Department of Labor
CFR =	Code of Federal Regulations

.03 Checklist Questionnaire:

This financial statement disclosure checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the health and welfare benefit plan. Place a check mark by the topics or sections considered not applicable; these sections need not be completed. For example, if the plan has not or is not being terminated, place a check by Other Financial Statement Disclosures, Section H, "Plan Terminations," and skip this section when completing the checklist.

Place ✓ by  
Sections Not Applicable

- General
  - A. Titles and References \_\_\_\_\_
  - B. Comparative Financial Statements \_\_\_\_\_
- Statement of Net Assets Available for Benefits
  - A. General \_\_\_\_\_
  - B. Investments \_\_\_\_\_
  - C. Assets Held in 401(h) Account \_\_\_\_\_
  - D. Contributions Receivable \_\_\_\_\_
  - E. Deposits With and Receivables From Insurance Companies and Other Service Providers \_\_\_\_\_
  - F. Operating Assets \_\_\_\_\_
  - G. Cash \_\_\_\_\_
  - H. Liabilities \_\_\_\_\_

	<i>Place ✓ by Sections Not Applicable</i>		
• Statement of Changes in Net Assets Available for Benefits			
• Statement of Plan's Benefit Obligations			
• Statement of Changes in Plan's Benefit Obligations			
A. General			
B. Claims Paid Through 401(h) Account			
C. Minimum Disclosure Requirements Regarding Changes in Benefit Obligations			
• Summary of Significant Accounting Policies			
A. Accounting Policies			
B. Certain Significant Estimates			
• Other Financial Statement Disclosures			
A. Changes in Accounting			
B. Commitments and Contingencies			
C. Current Vulnerabilities Due to Certain Concentrations			
D. Description of Health and Welfare Benefit Plans			
E. Description of Plan Amendments			
F./F1. Financial Instruments			
G. Income Tax Status			
H. Plan Terminations			
I. Related-Party Transactions			
J. Subsequent Events			
K. Other Matters			
• ERISA Reporting Requirements			
A. Form 5500 Series Report			
B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Health and Welfare Benefit Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA			
C. Required Financial Statements and Supporting Schedules			
• Auditors' Report Checklist			
• Illustrative Financial Statements			

Yes    No    N/A

## General

### A. Titles and References

1. For a full presentation in conformity with generally accepted accounting principles (GAAP), are the following financial statements presented:
  - a. For Defined Benefit Health and Welfare Benefit Plans:
    - (1) A "Statement of Net Assets Available for Benefits" as of the end of the plan year? [ERISA requires that this statement be presented in comparative form.]  
[AAG, par. 4.18; SOP 92-6, par. 20]

\_\_\_\_\_



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) A "Statement of Changes in Net Assets Available for Benefits" for the year then ended? [AAG, par. 4.18; SOP 92-6, par. 20]	_____	_____	_____
(3) A "Statement of Plan's Benefit Obligations" as of the end of the plan year? [AAG, par. 4.18; SOP 92-6, par. 20]	_____	_____	_____
(4) A "Statement of Changes in Plan's Benefit Obligations" for the year then ended? [AAG, par. 4.18; SOP 92-6, par. 20]	_____	_____	_____
<b>b. For Defined Contribution Health and Welfare Benefit Plans:</b>			
(1) A "Statement of Net Assets Available for Benefits" of the plan as of the end of the plan year? [ERISA requires that this statement be presented in comparative form.]	_____	_____	_____
(2) A "Statement of Changes in Net Assets Available for Benefits" of the plan for the year then ended? [AAG, par. 4.21; SOP 92-6, par. 23]	_____	_____	_____
2. For defined-benefit health and welfare plans, is information regarding benefit obligations presented on the face of one or more financial statements? [AAG, par. 4.18; SOP 92-6, par. 20]	_____	_____	_____
3. For defined-benefit health and welfare plans, is information regarding benefit obligations presented in such reasonable detail as is necessary to identify the nature and classification of the obligations? [AAG, par. 4.18; SOP 92-6, par. 20]	_____	_____	_____
4. For ERISA plans, are separate reports prepared for each plan where assets of more than one plan are held in a Voluntary Employees' Beneficiary Association trust (VEBA)? [AAG, par. 4.09; SOP 92-6, par. 11]	_____	_____	_____
5. Is each financial statement suitably titled? [SAS 62, par. 7 (AU 623.07)]	_____	_____	_____
6. Does each statement include a reference to the notes, which are an integral part of the financial statements? [Generally Accepted]	_____	_____	_____
<b>B. Comparative Financial Statements</b>			
1. Are comparative statements presented, if appropriate? <sup>1</sup> [ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .102); AAG, par. 4.17, fn. 14; SOP 92-6, par. 19, fn. 3]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the prior year(s) presented, repeated, or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____

<sup>1</sup> ERISA requires that the "Statement of Net Assets" available be presented in comparative form.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>Statement of Net Assets Available for Benefits</b>			
<b>A. General</b>			
1. Do disclosures include restrictions, if any, on plan assets (e.g., legal restrictions on multiple trusts)? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____
<b>B. Investments</b>			
1. Are the plan's investments presented in enough detail to identify the types of investments and whether reported fair values have been measured by quoted prices in an active market or have been otherwise determined? [AAG, par. 4.30; SOP 92-6, par. 32, as amended by SOP 94-4]	_____	_____	_____
2. Are the following investments reported as separate line items in the "Statements of Net Assets Available for Benefits":			
a. Government securities?	_____	_____	_____
b. Short-term securities?	_____	_____	_____
c. Corporate bonds?	_____	_____	_____
d. Common stocks?	_____	_____	_____
e. Mortgages?	_____	_____	_____
f. Real estate?	_____	_____	_____
g. Investments in bank common and commingled trust funds?	_____	_____	_____
h. Master trusts?	_____	_____	_____
i. Investment contracts with insurance companies, including separate accounts, and deposit administration and immediate participation guarantee contracts? [Generally Accepted]	_____	_____	_____
3. Are investments that represent 5 percent or more of total plan assets* separately identified in the financial statements or notes thereto? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____
4. Has consideration been given to disclosing provisions of insurance contracts included as plan assets that could cause an impairment of the asset value upon liquidation or other occurrence (for example, surrender charges and market value adjustments)? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____
5. If fully benefit-responsive investment contracts are held by a defined-contribution health and welfare plan, is the following information disclosed in the aggregate by investment option:			
a. The average yield for each period for which a statement of net assets available for benefits is presented?	_____	_____	_____
b. The crediting interest rate as of the date of each statement of net assets available for benefits presented?	_____	_____	_____

\* Generally, 5 percent of total net assets is used in calculating this amount (this is consistent with SFAS 35).

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. The amount of valuation reserves recorded to adjust contract amounts (for example, due to problems with the credit worthiness of the contract issuer or third party guarantor)?	_____	_____	_____
d. The fair value of investment contracts reported at contract value, in accordance with SFAS 107, as amended?	_____	_____	_____
e. A general description of the basis and frequency of determining crediting interest-rate resets and any minimum crediting interest rate under the terms of the contracts and any limitations on related liquidity guarantees (for example, plant closings, layoffs, plan termination, and mergers)?	_____	_____	_____
f. For ERISA-covered plans in which a fully benefit-responsive investment contract does not qualify for contract-value reporting in the DOL Form 5500 but is reported in the financial statements at contract value and the contract value does not approximate fair value, a statement explaining the differences between amounts reported in the financial statements and DOL Form 5500? [SOP 92-6, par. 58, as amended by SOP 94-4; AAG, par. 4.57]	_____	_____	_____
<b>C. Assets Held in 401(h) Account</b>			
1. Are the 401(h) assets and liabilities shown either as a single line item on the face of the statements of net assets available for plan benefits, or included in individual asset and liability line items with separate disclosure in the footnotes about the 401(h) amounts included in those individual line items? [SOP 99-2, par. 11]	_____	_____	_____
2. Do the notes to the financial statements disclose:			
a. The fact that retiree health benefits are funded partially through a 401(h) account of the defined benefit pension plan?	_____	_____	_____
b. The fact that the assets in the 401(h) account are available only to pay retiree health benefits?	_____	_____	_____
c. The significant components of net assets and changes in net assets of the 401(h) account? [SOP 99-2, par. 15]	_____	_____	_____
<b>D. Contributions Receivable</b>			
1. Are the following contributions receivable separately identified and accrued as of the date of the financial statements:			
a. Receivables from employer(s)?	_____	_____	_____
b. Receivables from participants?	_____	_____	_____
c. Other sources of funding (i.e., state subsidies or federal grants) pursuant to formal commitments as well as legal or contractual requirements? [AAG, par. 4.31; SOP 92-6, par. 33, as amended by SOP 94-4]	_____	_____	_____
2. Do contributions receivable include an allowance for uncollectible amounts? [AAG, par. 4.31; SOP 92-6, par. 33, as amended by SOP 94-4]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>E. Deposits With and Receivables From Insurance Companies and Other Service Providers</b>			
1. Premium deposits and premium stabilization reserves should be reported as assets of the plan until such time as they are used to pay premiums. Is the nature of this type of deposit or reserve disclosed? [AAG, par. 4.32; SOP 92-6, par. 34, as amended by SOP 94-4]	_____	_____	_____
2. If the policy year does not coincide with the plan's fiscal year and it is probable that a refund is due and the amount cannot be reasonably estimated, is this fact disclosed? [AAG, par. 4.33; SOP 92-6, par. 35, as amended by SOP 94-4]	_____	_____	_____
<b>F. Operating Assets</b>			
1. For depreciable assets, do the financial statements include disclosure of:			
a. Depreciation expense for each period?	_____	_____	_____
b. Balances of major classes of depreciable assets by nature or function?	_____	_____	_____
c. Accumulated depreciation, either by major classes of assets or in total?	_____	_____	_____
d. The method or methods used in computing depreciation for each major class of depreciable assets? [APB 12, pars. 5a–d (AC D40.105a–d)]	_____	_____	_____
2. If an impairment loss is recognized for assets to be held and used, do disclosures include:			
a. A description of the impaired assets and the facts and circumstances leading to the impairment?	_____	_____	_____
b. The amount of the impairment loss and how fair value was determined?	_____	_____	_____
c. The caption in the "Statement of Changes in Net Assets Available for Benefits" in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement? [SFAS 121, par. 14 (AC I08.133)]	_____	_____	_____
3. If assets to be disposed of are accounted for in accordance with paragraphs 15–17 of SFAS 121, do disclosures include:			
a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets?	_____	_____	_____
b. The loss, if any, resulting from applying paragraph 15 of SFAS 121?	_____	_____	_____
c. The gain or loss, resulting from changes in the carrying amounts of, assets to be disposed of, that arises from applying paragraph 17 of SFAS 121?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. The caption in the "Statement of Changes in Net Assets Available for Benefits" in which the gains or losses in Steps b. and c. are aggregated if those gains or losses are not presented as a separate caption or reported parenthetically on the face of the statement?	_____	_____	_____
e. The results of operations for assets to be disposed of to the extent that those results are included in the plan's results of operations for the period and can be identified? [SFAS 121, par. 19 (AC I08.138)]	_____	_____	_____
4. If an impairment loss is recognized, is it reported as a component of net assets available for benefits? [SFAS 121, pars. 13 and 18 (AC I08.137)]	_____	_____	_____
<b>G. Cash</b>			
1. Is separate disclosure made of restricted cash? [ARB 43, Ch. 3A, par. 6 (AC B05.107)]	_____	_____	_____
<b>H. Liabilities</b>			
1. Are liabilities other than for benefits (such as securities purchased, income taxes payable by the plan, and other expenses) deducted in arriving at net assets available for benefits? [AAG, par. 4.37; SOP 92-6, par. 38, as amended by SOP 94-4]	_____	_____	_____
2. Consider stating separately:			
a. Due to broker for securities purchased?	_____	_____	_____
b. Accounts payable?	_____	_____	_____
c. Accrued expenses? [AAG, par. 4.37 and App. F, exhibits F-1 and F-6)]	_____	_____	_____

### Statement of Changes in Net Assets Available for Benefits

1. Is the statement of changes in net assets available for benefits presented in enough detail to identify the significant changes during the year including, as applicable:			
a. Contributions from employers, segregated between cash and non-cash contributions (a noncash contribution should be reported at fair value at the date of the contribution; the nature of noncash contributions should be described either parenthetically or in a note)?	_____	_____	_____
b. Contributions from participants, including those collected and remitted by the sponsor?	_____	_____	_____
c. Contributions from other identified sources (e.g., state subsidies or federal grants)?	_____	_____	_____
d. The net appreciation or depreciation in fair value for each significant class of investments, segregated between investments whose fair values have been measured by quoted prices in an active market and those whose fair values have been otherwise determined?	_____	_____	_____

#### Practice Tip

Net appreciation or depreciation includes realized gains and losses on investments that were both purchased and sold during the period. Ordinarily, information regarding the net appreciation or depreciation in the fair value of investments is found in the notes to the financial statements. [AAG, par. 4.38, fn. 24; SOP 92-6, par. 39, fn. 13, as amended by SOP 94-4]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<i>e.</i> Investment income, excluding the net appreciation or depreciation?	_____	_____	_____
<i>f.</i> Income taxes paid or payable, if applicable?	_____	_____	_____
<i>g.</i> Payments of claims, excluding payments made by an insurance company pursuant to contracts that are excluded from plan assets?	_____	_____	_____
<i>h.</i> Payments of premiums to insurance companies to purchase contracts that are excluded from plan assets?	_____	_____	_____
<i>i.</i> Operating and administrative expenses?	_____	_____	_____
<i>j.</i> Other changes (such as transfers of assets to or from other plans), if significant?	_____	_____	_____
<i>k.</i> Changes during the period in liabilities for benefits by major types? [This disclosure is not required under SOP 92-6.] [AAG, par. 4.38; SOP 92-6, par. 39, as amended by SOP 94-4]	_____	_____	_____
2. If the 401(h) account assets and liabilities are shown as a single line item in the statement of net assets, are the changes in net assets also shown as a single line item on the health and welfare benefit plan's statement of changes in net assets? [SOP 99-2, par. 11]	_____	_____	_____
3. If the 401(h) account assets and liabilities are included in individual asset and liability line items in the statement of net assets, are the changes in individual 401(h) amounts included in the changes in the individual line items in the statement of changes in net assets, with separate disclosure in the footnotes about the 401(h) amounts included in those individual line items? [SOP 99-2, par. 11]	_____	_____	_____

## Statement of Plan's Benefit Obligations

### Practice Tip

Information regarding benefit obligations should be presented on the face of one or more financial statements and may be presented in either a separate statement or with other information on another financial statement. However, all the information must be located in one place. [AAG, par. 4.41]

1. Do benefit obligations of defined-benefit health and welfare benefit plans include the actuarial present value of the following:
  - a.* Claims payable and currently due for active and retired participants? \_\_\_\_\_
  - b.* Premiums due under insurance arrangements? \_\_\_\_\_
  - c.* Claims incurred but not reported to the plan for active participants? \_\_\_\_\_

### Practice Tip

Claims incurred by eligible participants but not yet reported to the plan (IBNR) may be computed in the aggregate for active participants and retirees. When the IBNR for retirees is not included in the postretirement benefit obligation, it may be included in claims incurred but not reported. [AAG, par. 4.40, fn. 27; SOP 92-6, par. 41, fn. 16]

- d.* Accumulated eligibility credits for active participants? \_\_\_\_\_
- e.* Postretirement benefits for:
  - (1) Retired participants, including their beneficiaries and covered dependents? \_\_\_\_\_



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) Active or terminated participants who are fully eligible to receive benefits?	_____	_____	_____
(3) Active participants not yet fully eligible to receive benefits? [AAG, par. 4.40; SOP 92-6, par. 41, as amended by SOP 94-4]	_____	_____	_____

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**Practice Tip**

Postretirement benefit obligations should be determined as of the end of the plan year or, if used consistently from year to year, as of a date not more than three months prior to that date, in accordance with paragraph 72 of SFAS 106. [AAG, par. 4.40, fn. 28; SOP 92-6, par. 41, fn. 17]

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- |  |  |  |  |
|--|--|--|--|
| <p>2. Does the postretirement benefit obligation information include the following classifications:</p> <p><i>a.</i> Obligations related to retired plan participants, including their beneficiaries and covered dependents?</p> <p><i>b.</i> Obligations related to active or terminated participants who are fully eligible to receive benefits?</p> <p><i>c.</i> Obligations related to other plan participants not yet fully eligible for benefits?<br/>[AAG, par. 4.53; SOP 92-6, par. 54, as amended by SOP 94-4]</p> <p>3. Is consideration given to separately disclosing each significant benefit (e.g., medical and death) for each classification listed in Step 2 above, as appropriate?<br/>[AAG, par. 4.53; SOP 92-6, par. 54, as amended by SOP 94-4]</p> <p>4. Premium deficits should be included in benefit obligations if (a) it is probable that the deficit will be applied against the amounts of future premiums or future experience-rating refunds and (b) the amount can be reasonably estimated. If no obligation is accrued for a premium deficit because either or both of the conditions listed above are <i>not</i> met, or if an exposure to loss exists in excess of the amount accrued, is disclosure of the premium deficit made if it is reasonably possible that a loss or an additional loss has been incurred?<br/>[AAG, par. 4.46; SOP 92-6, par. 47, as amended by SOP 94-4]</p> <p>5. Are 401(h) obligations reported in the health and welfare benefit plan's statement of benefit obligations as required by SOP 92-6?<br/>[SOP 99-2, par. 11]</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> |
|--|--|--|--|

## Statement of Changes in Plan's Benefit Obligations

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**Practice Tip**

Like the benefit obligation information, the changes should be presented within the body of the financial statements. [AAG, par. 4.54; SOP 92-6, par. 55, as amended by SOP 94-4]

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**A. General**

- |  |   |   |   |
|--|---|---|---|
| <p>1. Are changes in benefit obligations presented in the following categories:</p> <p><i>a.</i> Claims payable and premiums due to insurance companies?</p> <p><i>b.</i> IBNR and eligibility credits?</p> <p><i>c.</i> Postretirement benefit obligations?<br/>[AAG, par. 4.54; SOP 92-6, par. 55, as amended by SOP 94-4]</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> |
|--|---|---|---|

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>B. Claims Paid Through 401(h) Account</b>			
1. Does the health and welfare benefit plan's statement of changes in benefit obligations include claims paid through the 401(h) account? [SOP 99-2, par. 11]	_____	_____	_____

**C. Minimum Disclosure Requirements Regarding Changes in Benefit Obligations**

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**Practice Tip**

If only the minimum disclosure is presented, presentation in a statement format will necessitate an additional unidentified "other" category to reconcile the initial and ultimate amounts. [AAG, par. 4.55; SOP 92-6, par. 56, as amended by SOP 94-4]

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1. Is information provided with respect to the significant effects of:			
a. Plan amendments?	_____	_____	_____
b. Changes in the nature of the plan (mergers or spinoffs)?	_____	_____	_____
c. Changes in actuarial assumptions (health care cost-trend rate or interest rate)? <sup>2</sup> [AAG, par. 4.55; SOP 92-6, par. 56, as amended by SOP 94-4]	_____	_____	_____
2. Are significant effects of other factors identified, for example, benefits accumulated, <sup>3</sup> the effects of the time value of money (for interest), and benefits paid? [AAG, par. 4.55; SOP 92-6, par. 56, as amended by SOP 94-4]	_____	_____	_____

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**Practice Tip**

Financial statements prepared on a comprehensive basis of accounting other than GAAP should disclose information regarding benefit obligations. [AAG, par. 4.17, fn. 15, and 13.22; SOP 92-6, par. 5]

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**Summary of Significant Accounting Policies**

**A. Accounting Policies**

1. Is a description of all significant accounting policies of the plan presented in a separate "summary of significant accounting policies" preceding the notes to the financial statements or as the initial note? [APB 22, pars. 8 and 15 (AC A10.102 and 108)]	_____	_____	_____
2. Does the disclosure of significant accounting policies identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position and results of operations including instances in which there:			
a. Is a selection from existing acceptable alternatives?	_____	_____	_____
b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry?	_____	_____	_____

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<sup>2</sup> Changes in actuarial assumptions are to be considered as changes in accounting estimates and therefore previously reported amounts should not be restated. [AAG, par. 4.55, SOP 92-6, par. 56, as amended by SOP 94-4]

<sup>3</sup> Actuarial experience gains or losses may be included with the effects of additional benefits accumulated rather than separately disclosed. If the effects of changes in actuarial assumptions cannot be separately determined, those effects should be included in benefits accumulated and described accordingly. [AAG, par. 4.55, fn. 33; SOP 92-6, par. 56, fn. 22, as amended by SOP 94-4]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Are unusual or innovative applications of GAAP? [APB 22, par. 12 (AC A10.105)]	_____	_____	_____
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto), so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	_____	_____	_____
4. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included? [SOP 94-6, par. 11]	_____	_____	_____
5. Does the disclosure of significant accounting policies include a description of the method(s) and significant assumption(s) used to determine the fair value of investments and the reported value of insurance contracts? [AAG, par. 4.56; SOP 92-6, par. 57, as amended by SOP 94-4]	_____	_____	_____
6. Does the disclosure of significant accounting policies include a description of the method and significant actuarial assumptions used to determine the plan's benefit obligations? [AAG, par. 4.56; SOP 92-6, par. 57, as amended by SOP 94-4]	_____	_____	_____
7. Are any significant changes in assumptions between financial statement dates described? [AAG, par. 4.56; SOP 92-6, par. 57, as amended by SOP 94-4]	_____	_____	_____
8. Are the effects of any significant changes in actuarial assumptions made between financial statement dates described? [AAG, par. 4.56; SOP 92-6, par. 57, as amended by SOP 94-4]	_____	_____	_____
9. Do disclosures include the adjustment of the assumed rates of return for administrative expenses expected to be paid by the plan (not those paid by the sponsor) that are associated with providing accumulated benefit obligations? [AAG, par. 4.40, fn. 26; SOP 92-6, par. 41, fn. 15]	_____	_____	_____
10. For defined-contribution health and welfare plans, does the disclosure of significant accounting policies include the accounting policy for, and the amount and disposition of forfeited nonvested accounts? (Specifically, identification of whether those amounts will be used to reduce future employer contributions or will be allocated to participants accounts.) [AAG, par. 4.57]	_____	_____	_____

#### **B. Certain Significant Estimates**

1. If known information available before the financial statements are issued indicates that: (a) it is at least reasonably possible that the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events, and (b) the effect of the change would be material to the financial statements:			
a. Is disclosure made of the nature of the uncertainty, including an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. If the estimate involves a loss contingency covered by SFAS 5, does the disclosure include an estimate of the possible range of loss, or state that such an estimate cannot be made?	_____	_____	_____
c. Does the disclosure describe the factors that cause the estimate to be sensitive to change? [SOP 94-6, pars. 13 and 14]	_____	_____	_____

## Other Financial Statement Disclosures

### A. Changes in Accounting

1. For all changes in accounting principles, are disclosures made in the year of the change as to the:
  - a. Nature of the change? \_\_\_\_\_
  - b. Justification for the change including a clear explanation of why the newly adopted accounting principle is preferable? \_\_\_\_\_
  - c. Effect on net additions (deductions) to the plan's net assets?  
[APB 20, pars. 17 and 19 (AC A06.113 and .115)] \_\_\_\_\_
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? If it is not possible to determine such effect, is the reason for not reporting the cumulative effect of the change or the pro forma amounts of prior years disclosed?  
[APB 20, pars. 19-22 and 25 (AC A06.115-.118)] \_\_\_\_\_
3. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction?
  - a. Nature of the error in previously issued financial statements? \_\_\_\_\_
  - b. Effect of its correction on the changes in the net assets available for benefits and plan benefit obligations?  
[APB 20, par. 37 (AC A35.105)] \_\_\_\_\_
4. For changes in accounting estimate:
  - a. If a change in accounting estimate affects several future periods, is its effect on the change in net assets available for benefits of the current period disclosed?  
[APB 20, par. 33 (AC A06.132)] \_\_\_\_\_
  - b. If a change in accounting estimate has no material effect in the period of change, but is reasonably certain to materially affect later periods, is the change disclosed in the financial statements of the period of change?  
[APB 20, par. 38 (AC A06.133)] \_\_\_\_\_
5. For a change in reporting entity, such as a merger of two or more plans, are transferred assets reported as a separate line item in the "Statement of Changes in Net Assets," and are the nature of the change and the reason for it disclosed?  
[APB 20, pars. 34 and 35 (AC A35.112 and .113)] \_\_\_\_\_

### B. Commitments and Contingencies

1. Are the nature and amount of accrued loss contingencies, including those related to litigation, claims, and assessments, disclosed as necessary to keep the financial statements from being misleading?  
[SFAS 5, pars. 9 and 34 (AC C59.108 and .140)] \_\_\_\_\_

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. For loss contingencies not accrued when there is at least a reasonable possibility that a loss may have been incurred or an exposure to loss exists in excess of the amount accrued for a loss contingency, including those related to litigation, claims, and assessments, do disclosures indicate:			
a. Nature of the contingency?	_____	_____	_____
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, pars. 10 and 33–39 (AC C59.109, .111, and .139–.145)]	_____	_____	_____
3. Are gain contingencies disclosed with care to avoid any misleading implications about the likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
4. Are the nature and amount of any guarantees (e.g., guarantees of indebtedness of others) disclosed even though the possibility of loss may be remote? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1–3 (AC C59.114); EITF 85-20]	_____	_____	_____
5. Do disclosures include material lease commitments and other commitments? [SFAS 5, pars. 18 and 19 (AC C59.120); AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____
<b>C. Current Vulnerability Due to Certain Concentrations</b>			
1. Is disclosure including information that is adequate to inform users of the general nature of the risk associated with concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor; in revenue from particular products, services, or fund-raising events; in the available sources of supply of materials, labor, or services, or licenses or other rights used in the reporting entity's operations; or in the market or geographic area in which the reporting entity conducts its operations made if, based on information known to management before the financial statements are issued, (a) the concentration existed at the date of the financial statements, (b) made the enterprise vulnerable to the risk of a near-term severe impact, and (c) it is at least reasonably possible that the events that could cause the severe impact will occur in the near term? [SOP 94-6, pars. 21 and 22]	_____	_____	_____
<b>D. Description of Health and Welfare Benefit Plans</b>			
1. Do disclosures include a brief, general description of the plan agreement, including, but not limited to, participants covered, vested, and benefit provisions? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4; SOP 94-6, par. 10]	_____	_____	_____

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**Practice Tip**

If a plan agreement or a description thereof providing this information is otherwise published or made available, the description in the financial statement disclosures may be omitted provided that a reference to the other source is made. [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]

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- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 2. Does the description of the plan include the termination provisions of the plan and priorities for distribution of assets, if applicable?<br>[AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4] | _____      | _____     | _____      |

#### **E. Description of Plan Amendments**

- |  |       |       |       |
|--|-------|-------|-------|
| 1. If applicable, do disclosures include a description of significant plan amendments adopted during the period, as well as significant changes in the nature of the plan (e.g., a plan spin-off or merger with another plan) and changes in actuarial assumptions?<br>[AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4] | _____ | _____ | _____ |
|--|-------|-------|-------|

#### **F. Financial Instruments**

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**Note:** If SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has been adopted, the following steps do not apply. See section F1 for the required disclosures. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999.<sup>4</sup>

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- |  |       |       |       |
|--|-------|-------|-------|
| 1. If the plan holds or is party to financial instruments with off-balance-sheet credit risk (except for those excluded in SFAS 105 (AC F25)), are the following disclosed, by category of financial instrument: |       |       |       |
| a. The face or contract amount (or notional principal amount if there is no face or contract amount)?  | _____ | _____ | _____ |
| b. The nature and terms, including, at a minimum, a discussion of:   |       |       |       |
| (1) The credit and market risk of those instruments?   | _____ | _____ | _____ |
| (2) The cash requirements of those instruments?  | _____ | _____ | _____ |
| (3) The related accounting policy pursuant to the requirements of APB 22 (AC A10)?<br>[SFAS 105, par. 17, as amended by SFAS 119, par.14b (AC F25.112)]  | _____ | _____ | _____ |

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#### **Practice Tip**

“Category of financial instrument” refers to class of financial instrument, business activity, risk, or other category that is consistent with the management of those instruments. If disaggregation of financial instruments is other than by class, the plan also should describe for each category the classes of financial instruments included in that category.

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- |  |       |       |       |
|--|-------|-------|-------|
| 2. Do the disclosures noted in Steps 1.a. and 1.b. distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading?<br>[SFAS 105, par. 17, as amended by SFAS 119, par. 14d (AC F25.112A); AAG, par. 4.60] | _____ | _____ | _____ |
| 3. For financial instruments with off-balance-sheet credit risk (except for those excluded by paragraphs 14 and 15 of SFAS 105), are the following disclosed, by category of financial instrument:   |       |       |       |

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<sup>4</sup> At the time this checklist was being updated, the FASB issued an exposure draft that proposed to defer the effective date of SFAS 133 until fiscal quarters of fiscal years beginning after June 15, 2000. Users of this checklist should be alert to the issuance of a final pronouncement.



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. The amount of accounting loss the plan would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and if the collateral or other security, if any, for the amount due proved to be of no value to the plan?	_____	_____	_____
b. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk?	_____	_____	_____
c. Information about the plan's access to that collateral or other security?	_____	_____	_____
d. The nature and a brief description of the collateral or other security supporting those financial statements? [SFAS 105, par. 18, as amended by SFAS 119, par. 14b (AC F25.113); AAG, par. 4.60; SOP 92-6, par. 61, as amended by SOP 94-4]	_____	_____	_____
4. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), include:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The amount of the accounting loss due to credit risk the plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the plan?	_____	_____	_____
c. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk?	_____	_____	_____
d. Information about the plan's access to that collateral or other security?	_____	_____	_____
e. The nature and a brief description of the collateral or other security supporting those financial statements? [SFAS 105, par. 20 (AC F25.115); AAG, par. 4.61; SOP 92-6, par. 61, as amended by SOP 94-4]	_____	_____	_____

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#### Practice Tip

SFAS 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*, makes the disclosures about fair values of financial instruments prescribed in SFAS 107 optional for reporting entities that:

- Are nonpublic entities,
  - Have total assets of less than \$100 million on the date of the financial statements, and
  - Did not hold or issue any derivative financial instruments, as defined in SFAS 119, other than loan commitments, during the reporting period.
- 

5. For financial instruments for which it is practicable to estimate fair value (except for those excluded in paragraphs 8 and 13 of SFAS 107) are the following disclosed:			
a. The fair value of the financial instruments?	_____	_____	_____
b. The methods and significant assumptions used to estimate the fair values of the instruments? ( <i>Note:</i> This disclosure is not required			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
for trade receivables and payables when their carrying amounts approximate fair value.) [SFAS 107, par. 10 (AC F25.115C)]	_____	_____	_____
6. Are the fair values disclosed in the notes presented together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the "Statement of Net Assets Available for Benefits"? <sup>5</sup> [SFAS 107, par. 10, as amended by SFAS 119, par. 15b (AC F25.115C); AAG, par. 4.62]	_____	_____	_____
7. Do the disclosures distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading? [SFAS 107, par. 10, as amended by SFAS 119, par. 15c (AC F25.115C)]	_____	_____	_____
8. If it is not practicable to estimate the fair value of a financial instrument, or a class of financial instruments, are the following disclosed:			
a. Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?	_____	_____	_____
b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (AC F25.115J)]	_____	_____	_____
9. In disclosing the fair value of a derivative financial instrument, does the plan <i>not</i> :			
a. Combine, aggregate, or net the fair value with the fair value of a nonderivative financial instrument?	_____	_____	_____
b. Net the fair value with the fair value of other derivative financial instruments? [SFAS 107, par. 13, as amended by SFAS 119, par. 15d (AC F25.115I)]	_____	_____	_____

#### Practice Tip

In certain situations, offsetting may be permitted under FASBI 39, *Offsetting of Amounts Related to Certain Contracts*, as modified by FASBI 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*.

10. For options held and other derivative financial instruments not within the scope of SFAS 105 (because they do not have off-balance-sheet risk of accounting loss) are the following disclosures made by category of financial instrument:			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)? <sup>6</sup>	_____	_____	_____

<sup>5</sup> If disclosed in more than a single note, one of the notes should include a summary table containing the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by SFAS 107, as amended.

<sup>6</sup> Unless, as described in footnote 2 of SFAS 119, the disclosure of the face or contract amount would be misleading because the instruments are leveraged and the leverage features are not adequately disclosed.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The nature and terms, including, at a minimum, a discussion of:			
(1) Credit and market risk of the instruments?	_____	_____	_____
(2) Cash requirements of the instruments?	_____	_____	_____
(3) Related accounting policy as required by APB 22?	_____	_____	_____
11. Do disclosures in Steps 10.a. and 10.b. above distinguish between financial instruments held or issued for:			
a. Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings?	_____	_____	_____
b. Purposes other than trading? [SFAS 119, pars. 8 and 9 (AC F25.115L and M); AAG, pars. 4.65 and 4.116]	_____	_____	_____
12. If the plan holds or issues derivative financial instruments for trading purposes are the following disclosed:			
a. The average fair value of those derivative financial instruments during the reporting period presented together with the related end-of-period fair value, distinguishing between assets and liabilities?	_____	_____	_____
b. The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk or other category consistent with management of those activities and where those net trading gains or losses are reported in the "Statement of Changes in Net Assets Available for Benefits":			
(1) If the disaggregation is other than by class, are the classes of derivative financial instruments, other financial instruments, and nonfinancial assets and liabilities from which the net trading gains and losses arose disclosed for each category?	_____	_____	_____
c. The average fair value for assets and liabilities from the trading of other types of financial instruments or nonfinancial assets? ( <i>Encouraged but not required.</i> ) [SFAS 119, par. 10 (AC F25.115N)]	_____	_____	_____
13. If the plan holds or issues derivative financial instruments for purposes other than trading are the following disclosed:			
a. A description of:			
(1) The objectives for holding or issuing?	_____	_____	_____
(2) The context needed to understand those objectives?	_____	_____	_____
(3) The strategies for achieving those objectives?	_____	_____	_____
(4) The classes of derivative financial instruments used?	_____	_____	_____
b. A description of how each class of derivative financial instrument is reported in the financial statements, including:			
(1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments?	_____	_____	_____
(2) When recognized, where the instruments and related gains and losses are reported?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:			
(1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence?	_____	_____	_____
(2) A description of the classes of derivative financial instruments used to hedge?	_____	_____	_____
(3) The amount of explicitly deferred hedging gains and losses?	_____	_____	_____
(4) A description of the transactions or events that result in the recognition in earnings of the deferred gains or losses? [SFAS 119, par. 11 (AC F25.115O)]	_____	_____	_____
14. Is quantitative information about the following considered for disclosure ( <i>Encouraged, but not required</i> ):			
a. Interest rate?	_____	_____	_____
b. Foreign exchange?	_____	_____	_____
c. Commodity price?	_____	_____	_____
d. Other market risks consistent with management's strategies?	_____	_____	_____
e. Information of the risk of other financial instruments or nonfinancial assets and liabilities related by risk management strategy pertaining to the objectives for holding or issuing derivative financial instruments? [SFAS 119, pars. 12 and 13 (AC F25.115P and .115Q)]	_____	_____	_____

### Practice Tip

Suggested methods of disclosure of the above include:

- Additional details about current positions and period activity.
- Hypothetical effects on equity or on annual income due to several possible changes in market prices.
- Gap analysis of interest rate repricing or maturity dates.
- Duration of financial instruments.
- The entity's value at risk from derivative financial instruments and other positions at period end and the average value at risk during the year.
- Any other helpful information disclosures.  
[SFAS 119, par. 13 (AC F25.115Q)]

## F1. Financial Instruments

**Note:** The following disclosures apply only if SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has been adopted. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999.<sup>7</sup>

### *Derivative Instruments and Hedging Activities*

- If a plan holds derivative instruments (or non-derivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133) has disclosure been made of its objectives for holding those instruments, the context needed to understand those objectives, and its strategies for achieving those objectives? \_\_\_\_\_

<sup>7</sup> At the time this checklist was being updated, the FASB issued an exposure draft that proposed to defer the effective date of SFAS 133 until fiscal quarters of fiscal years beginning after June 15, 2000. Users of this checklist should be alert to the issuance of a final pronouncement.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Does the description distinguish between derivative instruments (and non-derivative instruments) designated as fair value hedging instruments, derivative instruments (and non-derivative instruments) designated as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, and all other derivatives?	_____	_____	_____
3. Does the description also indicate the plan's risk management policy for each of those types of hedges, including a description of the items or transactions for which risks are hedged?	_____	_____	_____
4. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity?	_____	_____	_____
5. Qualitative disclosures about a plan's objectives and strategies for using derivative instruments may be more meaningful if such objectives and strategies are described in the context of a plan's overall risk management profile. If appropriate, a plan is <b>encouraged, but not required</b> , to provide such additional qualitative disclosures. Have such disclosures been made? [SFAS 133, par. 44 (AC D50)]	_____	_____	_____
6. For derivative instruments, as well as non-derivative instruments that may give rise to foreign currency transaction gains or losses under SFAS 52, that have been designated and have qualified as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, do the plan's disclosures also include the net amount of gains or losses included in the cumulative translation adjustment during the reporting period for every reporting period for which a complete set of financial statement is presented? [SFAS 133, par. 45c (AC D50)]	_____	_____	_____
7. The quantitative disclosures about derivative instruments may be more useful, and less likely to be perceived to be out of context or otherwise misunderstood, if similar information is disclosed about other financial instruments or non-financial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in such situations, has the plan presented a more complete picture of its activities by disclosing that information? ( <b>Encouraged, but not required.</b> ) [SFAS 133, par. 45 (AC D50)]	_____	_____	_____

*Disclosures About Fair Value of Financial Instruments*

8. Has the plan disclosed, either in the body of the financial statements or in the accompanying notes, <sup>8</sup> the fair value of financial instruments (except for those excluded in paragraphs 8 and 13 of SFAS 107) for which it is practicable to estimate fair value? [SFAS 107, par. 10 (AC F25)]	_____	_____	_____
9. Has the fair value disclosed in the notes been presented together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of net assets available for benefits? [SFAS 107, par. 10 (AC F25)]	_____	_____	_____

<sup>8</sup> If disclosed in more than a single note, one of the notes shall include a summary table. The summary table shall contain the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by this Statement as amended.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
10. In disclosing the fair value of a financial instrument, has the plan taken care not to net the fair value with the fair value of other financial instruments—even if those financial instruments are the same class or are otherwise considered to be related, for example, by a risk management strategy—except to the extent that the offsetting of carrying amounts in the statement of net assets available for benefits is permitted under the general principle in paragraphs 5 and 6 of FASBI 39, <i>Offsetting of Amounts Related to Certain Contracts</i> , or the exceptions for master netting arrangements in paragraph 10 of FASBI 39 and for amounts related to certain repurchase and reverse repurchase agreements in paragraphs 3 and 4 of FASBI 41, <i>Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements</i> ? [SFAS 107, par. 14 (AC F25)]	_____	_____	_____
11. If it is not practicable to estimate the fair value of a financial instrument or a class of financial instruments, are the following disclosed:			
a. Information pertinent to estimating the fair value of a financial instrument or a class of financial instruments, such as the carrying amount, effective interest rate, and maturity?	_____	_____	_____
b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (AC F25)]	_____	_____	_____

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#### Practice Tip

SFAS 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Non-public Entities*, makes the disclosure about fair values of financial instruments prescribed in SFAS 107 optional for entities that:

- Are nonpublic entities,
  - Have total assets of less than \$100 million on the date of the financial statements, and
  - Have no instrument that, in whole or in part, is accounted for as a derivative instrument under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, during the reporting period.
- 

#### *Disclosure About Concentrations of Credit Risk of All Financial Instruments*

- |  |       |       |       |
|--|-------|-------|-------|
| 12. Except as indicated in paragraph 15B <sup>9</sup> of SFAS 107, has the plan disclosed all significant concentrations of credit risk arising from <i>all</i> financial instruments, whether from an individual counterparty or groups of counterparties ( <i>Group concentrations</i> of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions)? [SFAS 107, par. 15A (AC F25)] | _____ | _____ | _____ |
|--|-------|-------|-------|
13. Has the plan made the following disclosures about each significant concentration:

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<sup>9</sup> SFAS 107, paragraph 15B provides that these disclosure requirements do not apply to the following financial instruments, whether written or held:

1. Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of SFAS 87 (financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, are subject to the reporting of paragraph 15A).
2. The financial instruments described in paragraphs 8(a), 8(c), and 8(f) of SFAS 107, as amended by SFAS 112, *Employers' Accounting for Post-Employment Benefits*, SFAS 123, *Accounting for Stock Based Compensation*, and SFAS 125, except for reinsurance receivables and prepaid reinsurance premiums.



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the plan?	_____	_____	_____
c. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?	_____	_____	_____
d. The plan's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements to which the plan is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the plan's maximum amount of loss due to credit risk?	_____	_____	_____
14. Has the plan disclosed quantitative information <sup>10</sup> about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks? (Encouraged but not required.)	_____	_____	_____
<b>G. Income Tax Status<sup>11</sup></b>			
1. Do disclosures include the federal income tax status of the plan? [AAG, pars. 4.57 and 4.108e; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____
<b>H. Plan Terminations</b>			
1. If a decision is made to terminate the plan or a wasting trust exists, are all relevant circumstances disclosed? [AAG, par. 4.71; SOP 92-6, par. 63, as amended by SOP 94-4]	_____	_____	_____
2. If a decision is made to terminate the plan before the date of the plan financial statements, have all benefits been determined on a liquidation basis? [AAG, par. 4.71; SOP 92-6, par. 63, as amended by SOP 94-4]	_____	_____	_____
<b>I. Related-Party Transactions</b>			
1. For related-party transactions, do disclosures include:			
a. The nature of the relationships involved?	_____	_____	_____

<sup>10</sup> Appropriate ways of reporting the quantitative information encouraged will differ for different plans and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing (a) more details about current positions and perhaps activity during the period, (b) the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, (c) a gap analysis of interest rate re-pricing or maturity dates, (d) the duration of the financial instruments, or (e) the plan's value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and a plan is encouraged to develop other ways of reporting quantitative information.

<sup>11</sup> There is no determination letter program for health and welfare plans however a 501(c)(9) VEBA trust must obtain a determination letter to be exempt from taxation.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. For each period for which a statement of changes in net assets is presented:			
(1) A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed?	_____	_____	_____
(2) Other information deemed necessary to gain an understanding of the effects of the transactions on the financial statements?	_____	_____	_____
(3) The dollar amount of transactions?	_____	_____	_____
(4) The effects of any changes in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
c. Amounts due from or to related parties as of the date of each "Statement of Net Assets Available for Benefits" presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2-4 (AC R36.102-.104)]	_____	_____	_____
2. Is the nature of a controlled relationship disclosed (even if there are no transactions between the entities) if the plan and one or more other entities are under common ownership or management control, and the existence of the control could result in operating results or financial position of the plan being significantly different from those that would have resulted if the plan were autonomous? [SFAS 57, pars. 2-4 (AC R36.102-.104)]	_____	_____	_____
3. If representations about transactions with related parties are made, do they avoid the implication that the related party transactions were consummated at arm's length, or if such implications are made, can they be substantiated? [SFAS 57, par. 3 (AC R36.103)]	_____	_____	_____
4. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____
5. Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest? [AAG, App. A, par. A.51c]	_____	_____	_____

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#### Practice Tip

ERISA defines a party-in-interest generally as any fiduciary or employee of the plan, any person who provides services to the plan, an employer whose employees are covered by the plan, an employee association whose members are covered by the plan, a person who owns 50 percent or more of such an employer or employee association, or relatives of a person described above. [AAG, par. 11.01 and App. A, par. A.85, fn. 103; ERISA sec. 3(14)]

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#### J. Subsequent Events

- |   |              |              |              |
|---|--------------|--------------|--------------|
| <p>1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the date of the "Statement of Net Assets Available for Benefits"?<br/>[SFAS 5, par. 8 (AC C59.105); SAS 1, sec. 560.03, .04, and .07 (AU 560.03, .04, and .07)]</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
|---|--------------|--------------|--------------|

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are subsequent events that provide evidence about conditions that did not exist at the date of the "Statement of Net Assets Available for Benefits," but arose subsequent to that date, adequately disclosed (e.g., a decision to terminate the plan after the year end but before the year-end financial statements have been issued)? <sup>12</sup> [SFAS 5, par. 11 (AC C59.112); SAS 1, sec. 560.05-.07 and .09 (AU 560.05-.07 and .09); AAG, par. 4.71; SOP 92-6, par. 63, as amended by SOP 94-4]	_____	_____	_____
3. Do disclosures include any unusual or infrequent events or transactions occurring after the financial statement date, but before the issuance of the financial statements, that might significantly affect the usefulness of the financial statements in assessing the plan's present and future ability to pay benefits? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____
4. For those unusual or infrequent events or transactions identified in Step 3 above, do disclosures include the effects of such events or transactions, if reasonably determinable, or the reasons why such effects are not reasonably determinable? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____

#### K. Other Matters

1. Do the plan's financial statements provide information about plan resources and the manner in which the stewardship responsibility for those resources has been discharged? [AAG, par. 4.17; SOP 92-6, par. 22]	_____	_____	_____
2. Do disclosures include the funding policy of the plan and any changes in such policy during the plan year? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____
a. If the benefit obligations exceed the net assets of the plan, is the method of funding this deficit, as provided for in the plan agreement or collective bargaining agreement, disclosed? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____
b. For a contributory plan, does the disclosure on funding policy state the method of determining participants' contributions? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____
c. If significant plan administration or related costs are being borne by the employer, is that fact disclosed? [AAG, par. 4.57, fn. 37; SOP 92-6, par. 58, as amended by SOP 94-4, fn. 26]	_____	_____	_____
3. Do disclosures include the policy regarding the purchase of contracts with insurance companies that are excluded from plan assets? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____
4. With respect to contracts with insurance companies that are excluded from plan assets, is consideration given to disclosing the type and extent of insurance coverage, as well as the extent to which risk is transferred (e.g., coverage period and claims reported or claims incurred)? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____

<sup>12</sup> Also consider the appropriateness of dual dating the auditor's report for the subsequent event. [SAS 1, sec. 530.05 (AU 530.05)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Do disclosures include:			
a. The amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____
b. Significant real estate or other transactions in which the plan and any of the following parties are jointly involved: the sponsor, the plan administrator, employers, or employee organizations? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____
6. Do disclosures include the assumed health care cost-trend rate(s) used to measure the expected cost of benefits covered by the plan for the next year, a general description of the direction and pattern of change in the assumed trend rates thereafter, the ultimate trend rate(s), and when the rate is expected to be achieved? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____
7. For health and welfare benefit plans providing postretirement health care benefits, is the effect of a one-percentage-point increase in the assumed health care cost-trend rates for each future year on the postretirement benefit obligation disclosed? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____
8. Do disclosures include any modification of the existing cost-sharing provisions that are encompassed by the substantive plan(s) and the existence and nature of any commitment to increase monetary benefits provided by the plan and their effect on the plan's financial statements? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	_____	_____	_____

## ERISA Reporting Requirements

### A. Form 5500 Series Report

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Did plans with 100 or more participants at the beginning of the plan year file an annual report (Form 5500) containing financial statements prepared in accordance with either GAAP, or an other comprehensive basis of accounting (OCBOA), such as the cash basis or modified cash basis of accounting, separate schedules, notes (required for a full and fair presentation), and an independent public accountant's report prepared under generally accepted auditing standards?<br>[AAG, par. 13.20 and App. A, par. A.18] | _____ | _____ | _____ |
|---|-------|-------|-------|

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#### Practice Tip

Pursuant to DOL Regulation 29 CFR 2520.103-1(d), a plan that covers between 80 and 120 participants at the beginning of the plan year may elect to file the same report that was filed the previous year. Plans that file the Form 5500-C/R pursuant to the 80/120 rule are not required to have an audit of their financial statements. [DOL Reg. 29 CFR 2520.104-46]

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### B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Health and Welfare Benefit Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA

1. If the financial statements are filed under the "alternative method" pursuant to DOL Regulations section CFR 2520.103-1(a)(2), do the disclosures in the financial statements include:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. A description of accounting principles and variances from GAAP?	_____	_____	_____
b. A description of the plan, including significant changes in the plan and the effect of the changes on benefits?	_____	_____	_____
c. The funding policy and changes in the funding policy from the prior year?	_____	_____	_____
d. A description of material lease commitments, and other commitments and contingent liabilities?	_____	_____	_____
e. A description of any agreements and transactions with persons known to be parties-in-interest?	_____	_____	_____
f. A general description of priorities in the event of plan termination?	_____	_____	_____
g. Whether a tax ruling or determination letter has been obtained?	_____	_____	_____
h. An explanation of any differences between the separate financial statements and the financial information required on Form 5500? [AAG, App. A, par. A.51c]	_____	_____	_____

#### Practice Tip

Because ERISA requires 401(h) assets to be reported as assets of the defined benefit pension plan and not as assets of the health and welfare benefit plan, a reconciliation of the net assets reported in the financial statements to those reported in Form 5500 is required.  
[SOP 99-2, par. 16]

### C. Required Financial Statements and Supporting Schedules

1. For plans filing under either method (statutory or alternative), are the following financial statements included and covered by the auditor's report:
  - a. Statement of plan assets and liabilities by category at fair value and in comparative form for the beginning and end of the plan year? \_\_\_\_\_
  - b. Separate or combined statements of plan income and expenses and of changes in net assets?  
[AAG, App. A, par. A.51a] \_\_\_\_\_
2. Pursuant to DOL regulations, are the following *separate schedules* included with the financial statements of the plan and covered by the auditor's report:

#### Practice Tip

The instructions to the Form 5500 provide specific information as to the form and content of the various schedule requirements.

a. Assets held for investment purposes (if filing under the alternative method, a separate schedule of assets held at plan year-end and a schedule of certain assets acquired and disposed of within the plan year), showing separate disclosure of the net realized gain or loss on sales of securities and the net unrealized appreciation (depreciation) of investments held:			
(1) Is the schedule clearly labeled "Line 27a—Schedule of Assets Held for Investment Purposes"?	_____	_____	_____
b. Loans or fixed income obligations that are in default or uncollectible:			
(1) Is the schedule clearly labeled "Line 27b—Schedule of Loans or Fixed Income Obligations"?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Leases in default or uncollectible:			
(1) Is the schedule clearly labeled "Line 27c—Schedule of Leases in Default or Classified as Uncollectible"?	_____	_____	_____
d. Reportable transactions, including all individual security transactions that exceed 5 percent (regulations) <sup>13</sup> of the fair value of plan assets at the beginning of the year:			
(1) Is the schedule clearly labeled "Line 27d—Schedule of Reportable Transactions"?	_____	_____	_____
e. Non-exempt transactions with parties-in-interest:			
(1) Is the schedule clearly labeled "Line 27e—Schedule of Non-exempt Transactions" and/or "Line 27f—Schedule of Non-exempt Transactions"? [Instructions to Form 5500]	_____	_____	_____

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#### Practice Tip

Plans filing their annual reports under the statutory method are required to report transactions that exceed 3 percent of the fair value of plan assets at the beginning of the year while plans that file pursuant to the alternative method of compliance prescribed in DOL regulations are required to report transactions that exceed 5 percent of the fair value of plan assets at the beginning of the year. For a new plan, the percentage amount applies to the initial contribution to the plan.

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<sup>13</sup> Three percent statute.

# FSP Section 10,300

## *Auditors' Report Checklist*

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

### .02 Explanation of References:

AAG =	AICPA Audit and Accounting Guide <i>Audits of Employee Benefit Plans</i> (with conforming changes as of May 1, 1998)
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
SSARS =	AICPA Statement on Standards for Accounting and Review Services
AR =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 2)
DOL =	Department of Labor
CFR =	Code of Federal Regulations

### .03 Checklist Questionnaire:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Is each financial statement audited, specifically identified in the introductory paragraph of the auditor's report? [SAS 58, par. 6 (AU 508.06)]	_____	_____	_____
2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor's report match the titles of the financial statements presented? [Generally Accepted]	_____	_____	_____
3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor's report match the dates of the financial statements presented? [Generally Accepted]	_____	_____	_____
4. Is the report appropriately addressed? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____
5. Does the auditor's report include:			
a. A title that includes the word independent? [SAS 58, par. 8a (AU 508.08a)]	_____	_____	_____
b. A statement that the financial statements identified in the report were audited? [SAS 58, par. 8b (AU 508.08b)]	_____	_____	_____
c. A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit? [SAS 58, par. 8c (AU 508.08c)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. A statement that the audit was conducted in accordance with generally accepted auditing standards? [SAS 58, par. 8d (AU 508.08d)]	_____	_____	_____
e. A statement that generally accepted auditing standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement? [SAS 58, par. 8e (AU 508.08e)]	_____	_____	_____
f. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation? [SAS 58, par. 8f (AU 508.08f)]	_____	_____	_____
g. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion? [SAS 58, par. 8g (AU 508.08g)]	_____	_____	_____
h. An opinion as to whether the financial statements present fairly, in all material respects, the financial position of the reporting entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended in conformity with generally accepted accounting principles? [SAS 58, par. 8h (AU 508.08h)]	_____	_____	_____
<i>or</i>			
i. If the plan prepares its financial statements on a comprehensive basis of accounting other than GAAP:			
(1) Does the report include a paragraph that:			
(i) States the basis of presentation and refers to the note to the financial statements that describes the basis?	_____	_____	_____
(ii) States that the basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles?	_____	_____	_____
(iii) Expresses the auditor's opinion (or disclaims an opinion) on whether the financial statements are presented fairly, in all material respects, in conformity with the basis of accounting described?	_____	_____	_____
(2) If the auditor concludes that the financial statements are not presented fairly on the basis of accounting described or if there has been a limitation on the scope of the audit, does the report:			
(i) Disclose (in a paragraph preceding the opinion paragraph) all the substantive reasons for that conclusion?	_____	_____	_____
(ii) Include in the opinion paragraph the appropriate modifying language and a reference to such explanatory paragraph(s)? [SAS 62, par. 5d and e (AU 623.05d and e)]	_____	_____	_____
j. The manual or printed signature of the auditor's firm? [SAS 58, par. 8i (AU 508.08i)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
k. The date (or dual dates) <sup>1</sup> of the audit report? [SAS 58, par. 8j (AU 508.08j)]	_____	_____	_____

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**Practice Tip**

DOL regulations require the auditor's report to be dated and manually signed and to identify the city and state where issued.

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6. If a subsequent event disclosed in the financial statements occurs after completion of field work but before the issuance of the auditor's report, has the need for dual-dating of the report been considered? [SAS 1, sec. 530, pars. 3–5 (AU 530.03–.05)]	_____	_____	_____
7. If the auditor is not independent, is a compilation report indicating the lack of independence issued? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
8. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [SAS 58, pars. 33 and 34 (AU 508.33 and .34)]	_____	_____	_____
b. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14–17 (AU 504.14–.17)]	_____	_____	_____
c. The financial statements of the plan contain supplemental schedules relating to ERISA and DOL Regulations? [AAG, pars. 13.10–13.19]	_____	_____	_____

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**Practice Tip**

AAG includes additional auditor reports with respect to "financial statements of a trust" and "inadequate procedures to value investments." [AAG, pars. 13.31 and 13.36]

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*Explanatory Paragraphs*

9. If the opinion is based in part on the report of another auditor:			
a. Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?	_____	_____	_____
b. Does the opinion paragraph include a reference to the report of the other auditor? [SAS 58, pars. 11a, 12, and 13 (AU 508.11a, .12, and .13)]	_____	_____	_____
10. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule? [SAS 58, pars. 11b and 15 (AU 508.11b and .15)]	_____	_____	_____
11. If there is substantial doubt about the entity's ability to continue as a going concern:			

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<sup>1</sup> If a subsequent event is disclosed, the appropriateness of dual dating the report should be considered. [SAS 1, sec. 530.05 (AU 530.05)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?	_____	_____	_____
b. Is that conclusion expressed through the use of the phrase “substantial doubt about its (the entity’s) ability to continue as a going concern” or similar wording that includes the terms substantial doubt and going concern? [SAS 58, par. 11c (AU 508.11c); SAS 59, as amended by SAS 64, par. 12 (AU 341.12)]	_____	_____	_____

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**Practice Tip**

In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity’s ability to continue as a going concern. See SAS 77 for an example. [SAS 59, as amended by SAS 64 and SAS 77, par. 13]

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12. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity’s financial statements:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change?	_____	_____	_____
b. Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail? [SAS 58, as amended by SAS 79, pars. 11d and 16 (AU 508.11d and .16)]	_____	_____	_____

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**Practice Tip**

Changes in the format of presentation of accumulated benefit information or a change in the date as of which such information is presented does not require the auditor to add an explanatory paragraph to his or her report. [AU 9420.64 and .65; AAG, par. 13.24]

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13. In an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period (for example, when a plan initially adopts SOP 92-6, which requires restatement of prior year amounts):			
a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion?	_____	_____	_____
b. Does the explanatory paragraph disclose:			
(1) The date of the auditor’s previous report?	_____	_____	_____
(2) The type of opinion previously expressed?	_____	_____	_____
(3) The circumstances or events that caused the auditor to express a different opinion?	_____	_____	_____
(4) That the auditor’s updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements? [SAS 58, as amended by SAS 79, pars. 11e and 69 (AU 508.11e and .69)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
14. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:			
a. Does the introductory paragraph of the report indicate:			
(1) That the financial statements of the prior period were audited by another auditor?	_____	_____	_____
(2) The date of the predecessor auditor's report?	_____	_____	_____
(3) The type of report issued by the predecessor auditor?	_____	_____	_____
(4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification?	_____	_____	_____
b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 58, as amended by SAS 79, pars. 11e and 74 (AU 508.11e and .74)]	_____	_____	_____
15. If supplementary information required by the FASB has been omitted, the presentation of such information departs materially from FASB guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to FASB guidelines, does the report include an additional paragraph stating that fact? [SAS 58, par. 11g (AU 508.11g); SAS 52, par. 8 (AU 558.08)]	_____	_____	_____
16. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor's report, or both require revision? [SAS 58, par. 11h (AU 508.11h); SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
17. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation"? [SAS 58, pars. 11 and 19, as amended by SAS 79 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____
18. If the decision has been made to terminate a plan:			
a. Is the auditor's report modified by the addition of an explanatory paragraph that states that the plan is being terminated and that the financial statements (including the benefit information disclosures presented) have been prepared on a liquidation basis? [AAG, par. 13.41]	_____	_____	_____
b. Does the explanatory paragraph state that the plan has changed the basis of accounting used to determine the amounts at which assets, liabilities, and benefit information are presented from the ongoing plan basis to a liquidation basis if the financial statements are presented along with financial statements of a period prior to adoption of a liquidation basis? [Interpretation 8 of SAS 58 (AU 9508.35)]	_____	_____	_____

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**Practice Tip**

DOL Regulation section CFR 2520 requires that the auditor separately identify any exceptions to his or her report that are the result of DOL Regulations.

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*Departures From Unqualified Opinions*

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|---|---|---|---|
| <p>19. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion?<br/>[SAS 58, as amended by SAS 79, par. 22 (AU 508.22)]</p>   | <p>_____</p>  | <p>_____</p>  | <p>_____</p>  |
| <br>  |   |   |   |
| <p>20. If a qualified opinion is to be expressed because of a scope limitation:</p> <p style="margin-left: 20px;">a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?</p> <p style="margin-left: 20px;">b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i>?</p> <p style="margin-left: 20px;">c. Is the situation described and referred to in both the scope and opinion paragraphs?</p> <p style="margin-left: 20px;">d. Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself?<br/>[SAS 58, as amended by SAS 79, pars. 22–27 (AU 508.22–.27)]</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> |
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**Practice Tips**

Scope limitations include situations in which the auditor is unable to obtain sufficient evidential matter to support management's assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements. [SAS 58, as amended by SAS 79, par. 31]

Consult the Topical Index to the AICPA *Professional Standards* under "Scope of Audit—Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

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- |   |  |  |  |
|---|--|--|--|
| <p>21. If an opinion is disclaimed because of a scope limitation:</p> <p style="margin-left: 20px;">a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?</p> <p style="margin-left: 20px;">b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?</p> <p style="margin-left: 20px;">c. Does the report avoid identifying procedures that were performed?</p> <p style="margin-left: 20px;">d. Is the scope paragraph omitted?</p> <p style="margin-left: 20px;">e. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report?<br/>[SAS 58, as amended by SAS 79, par. 63 (AU 508.63)]</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> |
|---|--|--|--|

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
22. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion? <sup>2</sup> [SAS 58, as amended by SAS 79, par. 35 (AU 508.35)]	_____	_____	_____
23. Is a qualified or adverse opinion expressed due to a departure from GAAP if all of the provisions of SOP 92-6 have not been adopted, including not presenting the postretirement benefit obligation amount in "Statement of Plan's Benefit Obligations" and "Statement of Changes in Plan's Benefit Obligations?" <sup>3</sup>	_____	_____	_____
24. If a qualified opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i> and a reference to the explanatory paragraph?	_____	_____	_____
c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [SAS 58, as amended by SAS 79, pars. 37 and 38 (AU 508.37 and .38)]	_____	_____	_____
25. If an adverse opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?	_____	_____	_____
c. State that the financial statements do not present fairly the financial position, or results of operations or cash flows in conformity with GAAP? [SAS 58, as amended by SAS 79, pars. 58 and 59 (AU 508.58 and .59)]	_____	_____	_____
26. If a limited scope audit is performed pursuant to DOL Regulations 29 CFR section 2520.103-8, is a disclaimer of opinion expressed? [AAG, pars. 13.26-.30]	_____	_____	_____

<sup>2</sup> The auditor should express a qualified or an adverse opinion if the auditor concludes that (a) a matter involving a risk or an uncertainty is not adequately disclosed, (b) the accounting principles used cause the financial statements to be materially misstated when the inability to make a reasonable estimate raises questions about the appropriateness of the accounting principles used, and (c) management's estimate is unreasonable and that its effect is to cause the financial statements to be materially misstated. [SAS 58, as amended by SAS 70, pars. 46-49]

<sup>3</sup> See FSP section 10.400 for an illustration of an auditor's adverse opinion in a full scope audit of a health and welfare benefit plan when the auditor concludes that the plan's financial statements taken as a whole are not fairly presented in accordance with GAAP because the financial statements do not present the postretirement benefit obligations in accordance with SOP 92-6.

**Practice Tip**

Consult the Topical Index to the AICPA *Professional Standards* under "Departures from Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.

27. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document, does the report on the accompanying information:

- a. State that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole?
- b. Specifically identify the accompanying information?
- c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?
- d. State whether the accompanying information was subjected to the auditing procedures applied in the audit of the basic financial statements and includes the appropriate expression of opinion or disclaimer?  
[SAS 29, pars. 6–11 (AU 551.06–.11)]
- e. State that the supplemental schedules are the responsibility of the plan's management? (*Recommended but not a required disclosure.*)  
[AAG, par. 13.11]

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

**Practice Tip**

Step 26 above does not apply to limited-scope audits pursuant to DOL Regulations 29 CFR section 2520.103–8. In these situations, see Step 25 above and AAG, par. 13.26.

28. Auditor's report requirements under DOL regulations:

- a. Is the auditor's report dated and manually signed?  
[AAG (fn. 90)]
- b. Does it indicate the city and state where issued?  
[AAG (fn. 90)]
- c. Does it identify the statements and schedules covered?  
[AAG (fn. 90)]
- d. Does it disclose any omitted auditing procedures deemed necessary by the auditor and the reasons for their omission?
- e. State clearly the auditor's opinion of the financial statements and schedules covered by the report and the accounting principles and practices reflected therein?
- f. State clearly the consistency of the application of the accounting principles between the current year and the preceding year or as to any changes in such principles which have a material effect on the financial statements?
- g. State clearly any matters to which the auditor takes exception, the exception, and, to the extent practical, the effect of such matters on the related financial statements?  
[29 CFR 2520.103–1(iv)]

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(1) Are the exceptions, if any, further identified as (a) those that are the result of DOL regulations and (b) all others? [AAG, App. A, par. A.50a; DOL Regulations, sec. 29 CFR 2520]	<u>          </u>	<u>          </u>	<u>          </u>

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# FSP Section 10,400

## *Illustrative Financial Statements and Auditor's Reports*

.01 This section contains illustrations of the following auditor's reports:

- Health and Welfare Benefit Plan—Unqualified Opinion
- Health and Welfare Benefit Plan—Limited-Scope Audit
- Health and Welfare Benefit Plan—Adverse Opinion (failure to adopt SOP 92-6)

.02 This section also illustrates certain applications of the provisions of chapter 4 of the Audit and Accounting Guide *Audits of Employee Benefit Plans* (the Guide), and SOP 99-2, *Accounting and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans*, that apply for the annual financial statements of the following hypothetical pension plans:

- Allied Industries Benefit Plan—Multi-employer health and welfare benefit plan
- Classic Enterprises Benefit Plan—Single-employer health and welfare benefit plan

It does not illustrate other provisions of chapter 4 of the Guide that might apply in circumstances other than those assumed in this example. The format presented and the wording of accompanying notes are only illustrative and are not necessarily the only possible presentations. The illustrative financial statements have not been revised to reflect the provisions of SFAS 133.

.03 Although generally accepted accounting principles (GAAP) do not require comparative financial statements, ERISA requires a comparative statement of net assets available for benefits. The illustrative financial statements are intended to comply with the ERISA requirements for comparative statements.

.04 ERISA and DOL regulations require that certain information be included in supplemental schedules, which are not required under GAAP, and reported on by the independent auditor.



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The following is an illustration of an auditor's report with an unqualified opinion on the financial statements of a Health and Welfare Benefit Plan assuming adoption of SOP 92-6.

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.05

Independent Auditor's Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits and of plan benefit obligations of Allied Industries Benefit Plan as of December 31, 19X1 and 19X0, and the related statement of changes in net assets available for benefits and of changes in plan benefit obligations for the year ended December 31, 19X1. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the plan as of December 31, 19X1 and 19X0, and the changes in its financial status for the year ended December 31, 19X1 in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.<sup>1</sup>

[Signature of Firm]

[City and State]

[Date]

[AAG, pars. 13.08, 13.11, and 13.12]

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<sup>1</sup> This paragraph on the supplemental schedules required by ERISA and DOL regulations may also be shown separately in the auditor-submitted document.

**Illustration of Auditor's Report on Financial Statements—  
Limited-Scope Audits Under DOL Regulations**

Independent Auditor's Report

[Addressee]

We were engaged to audit the financial statements and supplemental schedules of Allied Industries Benefit Plan as of December 31, 19X1 and 19X0, and for the years then ended, as listed in the accompanying index. These financial statements and schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee (or custodian) of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee (or custodian) holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of and for the years ended December 31, 19X1 and 19X0, that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee or custodian, have been audited by us in accordance with generally accepted auditing standards and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.26]

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The following presents an illustration of an auditor's adverse opinion (with disclaimer of opinion on accompanying supplemental schedules required by ERISA<sup>2</sup>) in a full-scope audit of a health and welfare benefit plan when the auditor concludes that the plan's financial statements taken as a whole are not fairly presented in accordance with GAAP because the financial statements do not present the postretirement benefit obligations in accordance with SOP 92-6.

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.07

### Independent Auditor's Report

[Addressee]

We have audited the accompanying financial statements and supplemental schedules of ABC Multiemployer Health and Welfare Plan as of December 31, 19X2 and 19X1, and for the year ended December 31, 19X2 as listed in the accompanying index. These financial statements and schedules are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note X to the financial statements, the Plan's financial statements do not present the plan's obligations to provide health and welfare benefits to participants after retirement (postretirement benefit obligations). Generally accepted accounting principles require that a plan's statement of benefit obligations and statement of changes in benefit obligations include the postretirement benefit obligations.

The Plan administrator has not quantified the amount of, or change in, the Plan's postretirement benefit obligation, and in the absence of an actuarial determination, such amounts are not reasonably determinable. However, the effects of the omission of the postretirement benefit obligation information on the Plan's financial statements are presumed to be material.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial status of the Plan as of December 31, 19X2 and 19X1, and the changes in its financial status for the year ended December 31, 19X2.

The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. That information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended December 31, 19X2; however, because the basic financial statements are not presented fairly in conformity with generally accepted accounting principles, we do not express an opinion on any of the supplemental schedules.

[Signature of Firm]

[City and State]

[Date]

[May 1997 CPA Letter, "Department of Labor Takes a Nonenforcement Position on SOP 92-6"]

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<sup>2</sup> AU 551.10 of the AICPA *Professional Standards* (vol. 1) states that when the auditor expresses an adverse opinion or disclaims an opinion on the basic financial statements, he or she should not express an opinion on any accompanying supplemental information. An expression of an opinion in these circumstances would be inappropriate because, like a piecemeal opinion, it may tend to overshadow or contradict the adverse opinion or disclaimer of opinion on the basic financial statements.

The following are illustrative financial statements for a multi-employer health and welfare benefit plan that has adopted SOP 92-6 and displays the benefit obligation information in separate financial statements.

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**ALLIED INDUSTRIES BENEFIT PLAN**  
**Statements of Net Assets Available for Benefits<sup>3</sup>**  
**December 31, 19X1 and 19X0**

	<u>19X1</u>	<u>19X0</u>
<b>Assets</b>		
Investments, at fair value (see Note 4)		
U.S. government securities	\$5,000,000	\$4,000,000
Corporate bonds and debentures	2,000,000	1,600,000
Common stock	1,000,000	600,000
Total investments	<u>8,000,000</u>	<u>6,200,000</u>
Receivables		
Participating employers' contributions	500,000	430,000
Participants' contributions	100,000	80,000
Accrued interest and dividends	50,000	40,000
Total receivables	<u>650,000</u>	<u>550,000</u>
Cash	<u>140,000</u>	<u>115,000</u>
Total assets	<u>8,790,000</u>	<u>6,865,000</u>
<b>Liabilities</b>		
Due to broker for securities purchased	250,000	240,000
Accounts payable for administrative expenses	25,000	25,000
Total liabilities	<u>275,000</u>	<u>265,000</u>
Net assets available for benefits	<u>\$8,515,000</u>	<u>\$6,600,000</u>

The accompanying notes are an integral part of the financial statements.

<sup>3</sup> These financial statements are to be used for guidance purposes only and do not contain all disclosures required by GAAP.

**ALLIED INDUSTRIES BENEFIT PLAN**  
**Statement of Changes in Net Assets Available for Benefits**  
**Year Ended December 31, 19X1**

	<u>19X1</u>
Additions	
Contributions	
Participating employers	\$15,000,000
Participants	<u>3,000,000</u>
Total contributions	<u>18,000,000</u>
Investment income	
Net appreciation in fair value of investments	300,000
Interest	500,000
Dividends	<u>50,000</u>
Total investment income	850,000
Less investment expenses	<u>15,000</u>
Net investment income	<u>835,000</u>
Total additions	<u>18,835,000</u>
Deductions	
Benefits paid to participants	
Health care	16,000,000
Disability and death	<u>770,000</u>
Total benefits paid	16,770,000
Administrative expenses	<u>150,000</u>
Total deductions	<u>16,920,000</u>
Net increase during year	1,915,000
Net assets available for benefits	
Beginning of year	<u>6,600,000</u>
End of year	<u><u>\$ 8,515,000</u></u>

The accompanying notes are an integral part of the financial statements.

**ALLIED INDUSTRIES BENEFIT PLAN**  
**Statements of Plan's Benefit Obligations**  
**December 31, 19X1 and 19X0**

	<u>19X1</u>	<u>19X0</u>
Amounts currently payable to or for participants, beneficiaries, and dependents		
Health claims payable	\$ 1,100,000	\$ 975,000
Death and disability benefits payable	100,000	75,000
	<u>1,200,000</u>	<u>1,050,000</u>
Other obligations for current benefit coverage, at present value of estimated amounts		
Claims incurred but not reported	350,000	290,000
Accumulated eligibility credits	200,000	225,000
Long-term disability benefits	800,000	485,000
	<u>1,350,000</u>	<u>1,000,000</u>
Total obligations other than postretirement benefit obligations	<u>2,550,000</u>	<u>2,050,000</u>
Postretirement benefit obligations		
Current retirees	3,900,000	3,500,000
Other participants fully eligible for benefits	2,100,000	2,000,000
Other participants not yet fully eligible for benefits	5,000,000	4,165,000
	<u>11,000,000</u>	<u>9,665,000</u>
Plan's total benefit obligations	<u>\$13,550,000</u>	<u>\$11,715,000</u>

The accompanying notes are an integral part of the financial statements.

**ALLIED INDUSTRIES BENEFIT PLAN**  
**Statement of Changes in Plan's Benefit Obligations**  
**Year Ended December 31, 19X1**

	<u>19X1</u>
Amounts currently payable to or for participants, beneficiaries, and dependents	
Balance at beginning of year	\$ 1,050,000
Claims reported and approved for payment	16,920,000
Claims paid (including disability)	<u>(16,770,000)</u>
Balance at end of year	<u>1,200,000</u>
Other obligations for current benefit coverage, at present value of estimated amounts	
Balance at beginning of year	1,000,000
Net change during year:	
Long-term disability benefits	315,000
Other	<u>35,000</u>
Balance at end of year	<u>1,350,000</u>
Total obligations other than postretirement benefit obligations	<u>2,550,000</u>
Postretirement benefit obligations	
Balance at beginning of year	9,665,000
Increase (decrease) during the year attributable to:	
Benefits earned and other changes	1,250,000
Plan amendment	(175,000)
Changes in actuarial assumptions	<u>260,000</u>
Balance at end of year	<u>11,000,000</u>
Plan's total benefit obligations at end of year	<u><u>\$13,550,000</u></u>

The accompanying notes are an integral part of the financial statements.

## ALLIED INDUSTRIES BENEFIT PLAN

### Notes to Financial Statements

#### Note 1: Description of Plan

The following description of the Allied Industries Benefit Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

**General.** The Plan provides health and other benefits covering all participants in the widgets industry in the Greater Metropolis area. The Plan and related trust were established on May 8, 1966, pursuant to a collective bargaining agreement between the Allied Employers' Trade Association and the Allied Union, Local 802. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

**Benefits.** The Plan provides health benefits (medical, hospital, surgical, major medical, and dental), life insurance coverage, long-term disability benefits, and death benefits to full-time participants (with at least 450 hours of work in the industry during a consecutive three-month period) and to their beneficiaries and covered dependents. Retired employees are entitled to similar health benefits (in excess of Medicare coverage) provided they have attained at least age sixty-two and have fifteen years of service with participating employers before retirement.

The Plan also provides health benefits to participants during periods of unemployment, provided they have accumulated in the current year or in prior years credit amounts (expressed in hours) in excess of the hours required for current coverage. Accumulated eligibility credits equal to one year's coverage may be carried forward.

Health, disability, and death claims of active participants, dependents, and beneficiaries are processed by the Administrator Group, but the responsibility for payments to participants and providers is retained by the Plan.

In 19X1 the board of trustees amended the Plan to increase the deductible under major medical coverage from \$100 to \$300 and to extend dental coverage to employees retiring after December 31, 19X2. The amendment will not affect participating employers' contributions to the Plan in 19X2 under the current collective bargaining agreement.

**Contributions.** Participating employers contribute 5.5 percent of wages pursuant to the current collective bargaining agreement between employers and the union (expiring February 19, 19X5). Employees and retirees may contribute specified amounts, determined periodically by the Plan's actuary, to extend coverage to eligible dependents.

**Other.** The Plan's board of trustees, as Sponsor, has the right under the Plan to modify the benefits provided to active employees. The Plan may be terminated only by joint agreement between industry and union, subject to the provisions set forth in ERISA.

#### Note 2: Summary of Accounting Policies

**A. Use of Estimates.** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, benefit obligations, and changes therein, IBNR, eligibility credits, claims payable, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**B. Valuation of Investments.** The Plan's investments are stated at fair value. Securities traded on the national securities exchange are valued at the last reported sales price on the last business day of the plan year. Investments traded in the over-the-counter market and listed securities for



which no sale was reported on that date are valued at the average of the last reported bid and asked prices. For certain corporate bonds that do not have an established fair value, the Plan's board of trustees has established a fair value based on yields currently available on comparable securities of issuers with similar credit ratings.

**C. Postretirement Benefits.** The postretirement benefit obligation represents the total actuarial present value of those estimated future benefits that are attributed to employee service rendered to December 31. Postretirement benefits include future benefits expected to be paid for (1) currently retired or terminated employees and their beneficiaries and dependents and (2) active employees and their beneficiaries and dependents after retirement from service with the participating employers. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service in the industry rendered to the valuation date.

The actuarial present value of the expected postretirement benefit obligation is determined by an actuary and is the amount that results from applying actuarial assumptions to historical claims-cost data to estimate future annual incurred claims costs per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

For measurement purposes, a 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 19X2; the rate was assumed to decrease gradually to 8.0 percent for 19X7 and to remain at that level thereafter. These assumptions are consistent with those used to measure the benefit obligation at December 31, 19X0.

The following were other significant assumptions used in the valuations as of December 31, 19X1 and 19X0.

Weighted-average discount rate	8.0%—19X1; 8.25%—19X0
Average retirement age	60
Mortality	1971 Group Annuity Mortality Table

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement benefit obligation.

**D. Other Plan Benefits.** Plan obligations at December 31 for health claims incurred by active participants but not reported at that date, for accumulated eligibility of participants, and for future disability payments to members considered permanently disabled at December 31 are estimated by the Plan's actuary in accordance with accepted actuarial principles. Such estimated amounts are reported in the accompanying statement of the Plan's benefit obligations at present value, based on an 8.0 percent discount rate. Health claims incurred by retired participants, but not reported at year end, are included in the postretirement benefit obligation.

### Note 3: Benefit Obligations

The Plan's deficiency of net assets over benefit obligations at December 31, 19X1 and 19X0, relates primarily to the postretirement benefit obligation, the funding of which is not covered by the contribution rate provided by the current bargaining agreement. It is expected that the deficiency will be funded through future increases in the collectively bargained contribution rates.

The weighted-average health care cost-trend rate assumption (see note 2B) has a significant effect on the amounts reported in the accompanying financial statements. If the assumed rates increased by one percentage point in each year, it would increase the obligation as of December 31, 19X1 and 19X0, by \$2,600,000 and \$2,500,000, respectively.

**Note 4: Investments**

The Plan's investments are held by a bank-administered trust fund. During 19X1 the Plan's investments (including investments bought, sold, and held during the year) appreciated in value by \$300,000 as follows:

	<u>19X1</u>		<u>19X0</u>
	<i>Net Increase (Decrease) in Value During Year</i>	<i>Fair Value at End of Year</i>	<i>Fair Value at End of Year</i>
Fair value as determined by quoted market price:			
U.S. government securities	\$200,000	\$5,000,000	\$4,000,000
Corporate bonds and debentures	(25,000)	1,750,000	1,375,000
Common stocks	100,000	1,000,000	600,000
	<u>275,000</u>	<u>7,750,000</u>	<u>\$5,975,000</u>
Fair value as estimated by Plan's board of trustees:			
Corporate bonds	25,000	250,000	225,000
	<u>\$300,000</u>	<u>\$8,000,000</u>	<u>\$6,200,000</u>

The fair value of individual investments that represent 5.0 percent or more of the Plan's net assets are as follows:

	<u>19X1</u>	<u>19X0</u>
Commonwealth Power Co., 9.0% bonds due 2014 (\$500,000 face amount)	\$475,000	\$450,000
ABC Company common stock (2,000 shares)	500,000	450,000
U.S. Treasury bond, 8.5% due 19X6 (\$360,000 face amount)		350,000

**Note 5: Other Matters**

The trust established under the Plan to hold the Plan's assets is intended to qualify pursuant to Section 501(c)9 of the Internal Revenue Code, and, accordingly, the trust's net investment income is exempt from income taxes. The Plan has obtained a favorable tax determination letter from the Internal Revenue Service, and the Plan sponsor believes that the Trust, as amended, continues to qualify and to operate in accordance with applicable provisions of the internal revenue code.

**Note 6: Reconciliation of Financial Statements to Form 5500**

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

	<u>December 31,</u>	
	<u>19X1</u>	<u>19X0</u>
Net assets available for benefits per the financial statements	\$8,515,000	\$6,600,000
Benefit obligations currently payable (health claims, death and disability benefits)	1,200,000	1,050,000
Net assets available for benefits per the Form 5500	<u>\$7,315,000</u>	<u>\$5,550,000</u>

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500:

	<i>Year ended</i> <i>December 31, 19X1</i>
Benefits paid to participants per the financial statements	\$16,770,000
Add: Amounts currently payable at December 31, 19X1	1,200,000
Less: Amounts currently payable at December 31, 19X0	<u>(1,050,000)</u>
Benefits paid to participant per the Form 5500	<u><u>\$16,920,000</u></u>

Amounts currently payable to or for participants, dependents and beneficiaries are recorded on the Form 5500 for benefits claims that have been processed and approved for payment prior to December 31, but not yet paid as of that date.

The following are illustrative financial statements for a single-employer health and welfare benefit plan that has adopted SOP 92-6 that displays the benefit obligation information on the face of the financial statements along with the net asset information.

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### CLASSIC ENTERPRISES BENEFIT PLAN

#### Statements of Benefit Obligations and Net Assets Available for Benefits

December 31, 19X1 and 19X0

	19X1	19X0
<b>Benefit Obligations</b> (see Note 3)		
Amounts due insurance companies	\$ 1,200,000	\$ 1,000,000
Postretirement benefit obligations	11,000,000	9,665,000
Total benefit obligations	<u>12,200,000</u>	<u>10,665,000</u>
<b>Net Assets</b>		
<b>Assets</b>		
Investments at fair value (see Note 4)		
U.S. government securities	5,000,000	4,000,000
Corporate bonds and debentures	2,000,000	1,600,000
Common stock	1,000,000	600,000
Total investments	<u>8,000,000</u>	<u>6,200,000</u>
Receivables		
Sponsor's contributions	500,000	430,000
Participants' contributions	100,000	80,000
Accrued interest and dividends	50,000	40,000
Total receivables	<u>650,000</u>	<u>550,000</u>
Cash	75,000	60,000
Insurance premium deposits	65,000	55,000
Total assets	<u>8,790,000</u>	<u>6,865,000</u>
<b>Liabilities</b>		
Due to broker for securities purchased	250,000	240,000
Accounts payable for administrative expenses	25,000	25,000
Total liabilities	<u>275,000</u>	<u>265,000</u>
Net assets available for benefits	<u>8,515,000</u>	<u>6,600,000</u>
Excess of benefit obligations over net assets available for benefits	<u>\$ 3,685,000</u>	<u>\$ 4,065,000</u>

The accompanying notes are an integral part of the financial statements.

**CLASSIC ENTERPRISES BENEFIT PLAN**

**Statement of Changes in Benefit Obligations and Net Assets Available for Benefits**  
**Year Ended December 31, 19X1**

	<u>19X1</u>
<b>Net Increase in Benefit Obligations</b>	
Increase (Decrease) during the year attributable to:	
Benefits earned and other changes	\$ 1,510,000
Additional amounts payable to insurance company	200,000
Plan amendment	<u>(175,000)</u>
	<u>1,535,000</u>
<b>Net Increase in Net Assets Available for Benefits</b>	
Additions	
Contributions	
Sponsor	15,000,000
Participants	<u>3,000,000</u>
Total contributions	<u>18,000,000</u>
Investment income	
Net appreciation in fair value of investments	300,000
Interest	500,000
Dividends	<u>50,000</u>
	850,000
Less investment expenses	<u>15,000</u>
Net investment income	<u>835,000</u>
Total additions	<u>18,835,000</u>
Deductions	
Insurance premiums paid for health benefits, net of experience-rating adjustments of \$250,000 for 19X0 received on 19X1	16,035,000
Insurance premiums paid for death benefits	<u>780,000</u>
	16,815,000
Administrative expenses	<u>105,000</u>
Total deductions	<u>16,920,000</u>
Net increase	<u>1,915,000</u>
Decrease in excess of benefit obligations over net assets available for benefits	(380,000)
<b>Excess of Benefit Obligations Over Net Assets Available for Benefits</b>	
Beginning of year	<u>4,065,000</u>
End of year	<u>\$ 3,685,000</u>

The accompanying notes are an integral part of the financial statements.

## CLASSIC ENTERPRISES BENEFIT PLAN

### Notes to Financial Statements

#### Note 1: Description of Plan

The following description of the Classic Enterprises Benefit Plan (the "Plan") provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

**General.** The Plan provides health and death benefits covering substantially all active and retired employees of Classic Enterprises (the Sponsor). It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

**Benefits.** The Plan provides health benefits (medical, hospital, surgical, major medical, and dental) and death benefits to full-time employees of the Sponsor (with at least 1,000 hours of service each year) and to their beneficiaries and covered dependents. Retired employees are entitled to similar health and death benefits provided they have attained at least age fifty-five and have at least ten years of service with the Sponsor.

Current health claims of active and retired participants and their dependents and beneficiaries are provided under group insurance contracts with ABC Carrier, which are experience rated after the anniversary dates of the policies (generally March 31). Death benefits are covered by a group-term policy with DEF Carrier.

**Contributions.** The Sponsor's policy is to contribute the maximum amounts allowed as a tax deduction by the Internal Revenue Code. Under present law, the Sponsor is not permitted to deduct amounts for future benefits to current employees and retirees.

Employees and retirees may contribute specified amounts, determined periodically by the Plan's insurance companies, to extend coverage to eligible dependents.

In 19X1 the Plan was amended to increase the deductible under major medical coverage from \$100 to \$300 and to extend dental coverage to employees retiring after December 31, 19X1. The amendment is not expected to significantly affect the Sponsor's contribution to the Plan in 19X2.

**Other.** Although it has not expressed any intention to do so, the Sponsor has the right under the Plan to modify the benefits provided to active employees, to discontinue its contributions at any time, and to terminate the Plan subject to the provisions set forth in ERISA.

#### Note 2: Summary of Accounting Policies

**A. Use of Estimates.** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, benefit obligations, and changes therein, IBNR, eligibility credits, claims payable, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**B. Valuation of Investments.** The Plan's investments are stated at fair value. Securities traded on the national securities exchanges are valued at the last reported sales price on the last business day of the plan year. Investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and asked prices. For certain corporate bonds that do not have an established fair value, the Classic Enterprises Benefits Committee has established a fair value based on yields currently available on comparable securities of issuers with similar credit ratings.

**C. Plan Benefits.** The postretirement benefit obligation (see note 3) represents the actuarial present value of those estimated future benefits that are attributed to employee service rendered

to December 31. Postretirement benefits include future benefits expected to be paid to or for (i) currently retired employees and their beneficiaries and dependents and (ii) active employees and their beneficiaries and dependents after retirement from service with the Sponsor. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service rendered to the valuation date.

The actuarial present value of the expected postretirement benefit obligation is determined by an actuary and is the amount that results from applying actuarial assumptions to historical claims-cost data to estimate future annual incurred claims costs per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

For measurement purposes at December 31, 19X1, a 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 19X2; the rate was assumed to decrease gradually to 8.0 percent for 19X7 and to remain at that level thereafter. These assumptions are consistent with those used to measure the benefit obligation at December 31, 19X0.

The following were other significant assumptions used in the valuations as of December 31, 19X1 and 19X0.

Weighted-average discount rate	8.0%
Average retirement age	60
Mortality	1971 Group Annuity Mortality Table

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement benefit obligation.

### Note 3: Benefit Obligations

Health costs incurred by participants and their beneficiaries and dependents are covered by insurance contracts maintained by the Plan. It is the present intention of the Sponsor and the Plan to continue obtaining insurance coverage for benefits. As stated in note 1, the Sponsor is not permitted under present tax law to deduct amounts for future benefits (beyond one year). Insurance premiums for future years in respect of the Plan's postretirement benefit obligation will be funded by Sponsor contributions to the Plan in those later years.

The postretirement benefit obligation at December 31, 19X1 and 19X0, principally health benefits, relates to the following categories of participants (including their beneficiaries and dependents):

	<u>19X1</u>	<u>19X0</u>
Current retirees	\$ 3,900,000	\$3,500,000
Other participants fully eligible for benefits	2,100,000	2,000,000
Participants not yet fully eligible for benefits	5,000,000	4,165,000
	<u>\$11,000,000</u>	<u>\$9,665,000</u>

The health care cost-trend rate assumption (see note 2B) has a significant effect on the amounts reported. If the assumed rates increased by one percentage point in each year, that would increase the obligation as of December 31, 19X1 and 19X0, by \$2,600,000 and \$2,500,000 respectively.

### Note 4: Investments

The Plan's investments are held by a bank-administered trust fund. During 19X1 the Plan's investments (including investments bought, sold, and held during the year) appreciated in value by \$300,000 as follows:

	<u>19X1</u>	<u>19X0</u>
	<i>Net Increase (Decrease) in Value During Year</i>	<i>Fair Value at End of Year</i>
Fair value as determined by quoted market price:		
U.S. government securities	\$200,000	\$5,000,000
Corporate bonds and debentures	(25,000)	1,750,000
Common stocks	<u>100,000</u>	<u>600,000</u>
	275,000	\$5,975,000
Fair value as estimated by		
Classic Enterprise Benefits Plan Investment Committee:		
Corporate bonds	<u>25,000</u>	<u>250,000</u>
	<u>\$300,000</u>	<u>\$6,200,000</u>

The fair value of individual investments that represent 5.0 percent or more of the Plan's net assets are as follows:

	<u>19X1</u>	<u>19X0</u>
Commonwealth Power Co., 9.0% bonds due 2014 (\$500,000 face amount)	\$475,000	\$450,000
ABC Company common stock (2,000 shares)	500,000	450,000
U.S. Treasury bond, 8.5% due 19X6 (\$360,000 face amount)		350,000

**Note 5: Other Matters**

The trust established under the Plan to hold the Plan's net assets is qualified pursuant to Section 501(c)9 of the Internal Revenue Code, and, accordingly, the Trust's net investment income is exempt from income taxes. The Sponsor has obtained a favorable tax determination letter from the Internal Revenue Service and the Sponsor believes that the Trust, as amended, continues to qualify and to operate as designed.

**Note 6: Reconciliation of Financial Statements to Form 5500**

The following is a reconciliation of net assets available for benefits per the financial statements to Form 5500:

	<u>December 31,</u>	
	<u>19X1</u>	<u>19X0</u>
Net assets available for benefits per the financial statements	\$8,515,000	\$6,600,000
Amounts due insurance companies	<u>1,200,000</u>	<u>1,000,000</u>
Net assets available for benefits per the Form 5500	<u>\$7,315,000</u>	<u>\$5,600,000</u>



The following is a reconciliation of insurance premiums paid for participants per the financial statements to Form 5500:

	<i>Year ended</i> <u><i>December 31, 19X1</i></u>
Insurance premiums paid per the financial statements	\$16,815,000
Add: Amounts due insurance companies at December 31, 19X1	1,200,000
Less: Amounts due insurance companies at December 31, 19X0	<u>(1,000,000)</u>
Insurance premiums paid for participants per the Form 5500	<u><u>\$17,015,000</u></u>

Paragraphs .16–.20 illustrate certain applications of the provisions of SOP 99-2 that apply for the annual financial statements of a hypothetical health and welfare benefit plan that is funded in part through a 401(h) feature of a defined benefit pension plan.

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**C&H COMPANY WELFARE BENEFIT PLAN**  
**Statement of Net Assets Available for Plan Benefits**

	<i>December 31,</i>	
	<u>20X1</u>	<u>20X0</u>
<b>Assets</b>		
Investments, at fair value		
U.S. government securities	\$5,000,000	\$4,000,000
Corporate bonds and debentures	2,000,000	1,600,000
Common stock	1,000,000	600,000
Total investments	<u>8,000,000</u>	<u>6,200,000</u>
Net assets held in C&H Company defined benefit plan—restricted for 401(h) account (Notes A and E)	<u>1,072,000</u>	<u>966,000</u>
Receivables		
Employer contribution	500,000	430,000
Employee contributions	100,000	80,000
Accrued interest and dividends	50,000	40,000
Total receivables	<u>650,000</u>	<u>550,000</u>
Cash	<u>110,000</u>	<u>115,000</u>
Total assets	<u>9,832,000</u>	<u>7,831,000</u>
<b>Liabilities</b>		
Due to broker for securities purchased	250,000	240,000
Accounts payable for administrative expenses	25,000	25,000
Total liabilities	<u>275,000</u>	<u>265,000</u>
Net assets available for plan benefits	<u>\$9,557,000</u>	<u>\$7,566,000</u>

The accompanying notes are an integral part of the financial statements.

**C&H COMPANY WELFARE BENEFIT PLAN****Statement of Changes in Net Assets Available for Plan Benefits***For the Year Ended  
December 31, 20X1***Additions**

## Contributions

Employer contributions	\$15,000,000
Employee contributions	3,000,000
Total contributions	<u>18,000,000</u>

## Investment income

Net appreciation in fair value of investments	300,000
Interest	500,000
Dividends	50,000
Total investment income	<u>850,000</u>
Less investment expense	<u>15,000</u>
Net investment income	<u>835,000</u>

Net increase in 401(h) account (Note E)	<u>106,000</u>
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Total additions	<u>18,941,000</u>
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**Deductions**

## Benefits paid directly to participants:

Health care	16,000,000
Disability and death	770,000
Total benefits paid	<u>16,770,000</u>

Administrative expenses	<u>180,000</u>
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Total deductions	<u>16,950,000</u>
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Net increase during the year	<u>1,991,000</u>
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## Net assets available for benefits:

Beginning of year	<u>7,566,000</u>
End of year	<u>\$ 9,557,000</u>

The accompanying notes are an integral part of the financial statements.

**C&H WELFARE BENEFIT PLAN**  
**Statement of Benefit Obligations**

	<i>For the Year Ended December 31, 20X1</i>	<i>For the Year Ended December 31, 20X0</i>
<b>Amounts currently payable to or for participants, beneficiaries, and dependents</b>		
Health claims payable	\$ 1,100,000	\$ 975,000
Death and disability benefits payable	<u>100,000</u>	<u>75,000</u>
Total amounts currently payable	<u>1,200,000</u>	<u>1,050,000</u>
<b>Other obligations for current benefit coverage, at present value of estimated amounts</b>		
Claims incurred but not reported	425,000	390,000
Long-term disability benefits	<u>925,000</u>	<u>610,000</u>
Total other obligations for current benefit coverage	<u>1,350,000</u>	<u>1,000,000</u>
Total obligations other than postretirement benefit obligations	<u>2,550,000</u>	<u>2,050,000</u>
<b>Postretirement benefit obligations</b>		
Current retirees	3,900,000	3,500,000
Other participants fully eligible for benefits	2,100,000	2,000,000
Other participants not yet fully eligible for benefits	<u>5,000,000</u>	<u>4,165,000</u>
Total postretirement benefit obligations	<u>11,000,000</u>	<u>9,665,000</u>
Total benefit obligations	<u><u>\$13,550,000</u></u>	<u><u>\$11,715,000</u></u>

The accompanying notes are an integral part of the financial statements.

**C&H COMPANY WELFARE BENEFIT PLAN**  
**Statement of Changes in Benefit Obligations**

*For the Year Ended  
December 31, 20X1*

**Amounts currently payable to or for participants,  
beneficiaries, and dependents**

Balance, beginning of year	\$ 1,050,000
Claims reported and approved for payment	16,930,000
Claims paid (including disability)	(16,770,000)
Claims paid through 401(h) account (Note E)	(10,000)
Balance, end of year	<u>1,200,000</u>

**Other obligations for current benefit coverage,  
at present value of estimated amounts**

Balance, beginning of year	1,000,000
Net change during year:	
Long-term disability benefits	315,000
Other	35,000
Balance, end of year	<u>1,350,000</u>
Total obligations other than postretirement benefit obligations	<u>2,550,000</u>

**Postretirement benefit obligations**

Balance, beginning of year	9,665,000
Increase (decrease) during the year attributable to:	
Benefits earned and other changes	1,250,000
Plan amendment	(175,000)
Changes in actuarial assumptions	260,000
Balance, end of year	<u>11,000,000</u>
Total benefit obligations, end of year	<u>\$ 13,550,000</u>

The accompanying notes are an integral part of the financial statements.

## C&amp;H COMPANY WELFARE BENEFIT PLAN

## Notes to Financial Statements

## Note A: 401(h) Account

Effective January 1, 19X0, the [Company's defined benefit pension plan] was amended to include a medical-benefit component in addition to normal retirement benefits to fund a portion of the postretirement obligations for retirees and their beneficiaries in accordance with Section 401(h) of the Internal Revenue Code (IRC). A separate account has been established and maintained in the [defined benefit pension plan] for such contributions. In accordance with IRC Section 401(h), the Plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees and their beneficiaries. The related obligations for health benefits are not included in the [defined benefit pension plan's] obligations in the statement of accumulated plan benefits but are reported as obligations in the financial statements of the [health and welfare benefit plan].

## Note E: 401(h) Account

A portion of the Plan's obligations are funded through contributions to the Company's [defined benefit pension plan] in accordance with IRC Section 401(h). The following table presents the components of the net assets available for such obligations and the related changes in net assets available.

Net Assets Available for Postretirement  
Health and Welfare Benefits in 401(h) Account

	<i>December 31,</i>	
	<u>20X1</u>	<u>20X0</u>
Investments at fair value:		
U.S. government securities	\$ 14,000	\$ 150,000
Money market fund	900,000	800,000
	<u>1,040,000</u>	<u>950,000</u>
Cash	20,000	10,000
Employer's contribution receivable <sup>4</sup>	20,000	15,000
Accrued interest	7,000	6,000
Total assets	<u>1,087,000</u>	<u>981,000</u>
Accrued administrative expenses	(15,000)	(15,000)
Net assets available	<u>\$1,072,000</u>	<u>\$ 966,000</u>

Changes in Net Assets in 401(h) Account

	<i>For the Year Ended December 31, 20X1</i>
Net appreciation in fair value of investments:	
U.S. government securities	\$10,800
Interest	80,200
	<u>91,000</u>
Employer contributions	40,000
Health and welfare benefits paid to retirees	(10,000)
Administrative expenses	(15,000)
Net increase in net assets available	<u>\$106,000</u>

<sup>4</sup> A receivable from the employer must meet the requirements of paragraph 10 of SFAS 35, *Accounting and Reporting by Defined Pension Plans*.

**Note H: Reconciliation of Financial Statements to Form 5500<sup>5</sup>**

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

Net assets available for benefits per the financial statements	\$ 9,557,000
Claims payable	(1,200,000)
Net assets held in defined benefit plan—401(h) account	(1,072,000)
Net assets available for benefits per Form 5500	<u>\$ 7,285,000</u>

The following is a reconciliation of claims paid per the financial statements and net investment income related to the changes in the investments of the 401(h) assets to the Form 5500:

Claims paid per the financial statements	\$16,770,000
Add: Amounts payable at December 31, 20X1	1,200,000
Less: Amounts payable at December 31, 20X0	(1,050,000)
Claims paid per Form 5500	<u>\$16,920,000</u>
Net investment income per the financial statements	\$ 835,000
Less: Net investment income related to the changes in the investments of the 401(h) assets	91,000
Net investment income per Form 5500	<u>\$ 744,000</u>

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<sup>5</sup> The reconciliation of amounts reported in plan financial statements to amounts reported in Form 5500 is required by ERISA.

## Comment Letter

We welcome any comments and suggestions you have regarding this Checklist. Please send this completed form to: AICPA, Accounting and Auditing Publications, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ, 07311-3881. Thank you.

Checklist Title: \_\_\_\_\_

Comments and Suggestions:



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